

# Senate Hearings

*Before the Committee on Appropriations*

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Agriculture, Rural Development, and...

## Agriculture, Rural Development, and Related Agencies Appropriations

*Fiscal Year* 1994

103<sup>d</sup> CONGRESS, FIRST SESSION

H.R. 2493

### PART 1 (Pages 1-941)

COMMODITY FUTURES TRADING COMMISSION  
DEPARTMENT OF AGRICULTURE  
FARM CREDIT ADMINISTRATION  
FOOD AND DRUG ADMINISTRATION

104 7 1994





# AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1994

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## HEARINGS

BEFORE A

SUBCOMMITTEE OF THE  
COMMITTEE ON APPROPRIATIONS  
UNITED STATES SENATE  
ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

### H.R. 2493

AN ACT MAKING APPROPRIATIONS FOR AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1994, AND FOR OTHER PURPOSES

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#### PART 1 (Pages 1-941)

Commodity Futures Trading Commission  
Department of Agriculture  
Farm Credit Administration  
Food and Drug Administration

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# **AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1994**

**TUESDAY, APRIL 20, 1993**

**U.S. SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,  
Washington, DC.**

The subcommittee met at 2:32 p.m., in room SD-192, Dirksen Senate Office Building, Hon. Dale Bumpers (chairman) presiding.  
Present: Senators Bumpers, Harkin, Kerrey, Kohl, Feinstein, Cochran, Specter, Bond, and Gorton.

## **DEPARTMENT OF AGRICULTURE**

### **OFFICE OF THE SECRETARY**

**STATEMENT OF MIKE ESPY, SECRETARY OF AGRICULTURE  
ACCOMPANIED BY STEPHEN B. DEWHURST, BUDGET OFFICER**

#### **OPENING REMARKS**

Senator BUMPERS. Today we begin our hearings on the fiscal year 1994 budget for Agriculture, Rural Development, and Related Agencies. It is appropriate that our first meeting is with our new distinguished Secretary of Agriculture, our former colleague, Mike Espy, and I want to extend you a special welcome, Mr. Secretary.

Secretary ESPY. Thank you, sir.

Senator BUMPERS. Accompanying the Secretary is Steve Dewhurst, the Budget Officer of the Department of Agriculture.

In terms of budget authority, the President's request for USDA totaled \$67.5 billion, which compares to \$68.1 billion for 1993. Of this amount, \$3.4 billion is for the Forest Service, which is not covered under the jurisdiction of this subcommittee.

The budget proposes major increases for several rural development programs, including water and sewer loans, grants, business and industry loans and grants, rural housing, WIC, the meat and poultry inspection program, as well as food stamps and child nutrition. I am pleased to see many of these increases, especially those that foster rural development.

Mr. Secretary, you and I have been laboring in the rural development vineyards for a long time, and I am looking forward to working with somebody in the Department who really understands the problem.

The President's budget also contains some significant cuts in REA, crop insurance, and research grants and facilities. In addi-

tion, the budget proposes to save money by instituting user fees in several programs, the most significant of which is the Food, Safety, and Inspection Service; and, in addition, there are cuts to so-called mandatory programs, such as the Honey Program, the Wool and Mohair Program, food stamps and payment limitations under the farm bill. Those cuts do not properly lie under this committee's jurisdiction either. But sometimes we wind up dealing with them.

I am concerned by some of these cuts and changes, Mr. Secretary, both discretionary and mandatory. Again, I want to work with you in putting together a strong budget for the USDA, with the resources available to us. Now, other Senators as they arrive may insert records, but at this time, Mr. Secretary, please proceed with your statement. And, let me also say that your entire statement will be inserted in the record; we would be happy if you can summarize. Please proceed, and then we will take questions.

#### STATEMENT OF MIKE ESPY

Secretary ESPY. Thank you, Mr. Chairman. I am delighted to be here. It is indeed a privilege to appear before you, in my first appearance here before your committee, as Secretary of the U.S. Department of Agriculture. I would appreciate, and I thank you for including my statement in the record. I will try to summarize, and will not go word by word.

First of all, I would like to accept your offer. We are friends. We have labored in the rural development vineyards, and I really do look forward, Senator, to working with you, in improving and enhancing the programs for rural development, food and farm programs. I intend to work very hard at fostering a good working relationship with you and this committee, and the Clinton administration.

#### PRESIDENT'S ECONOMIC PLAN

Today, I would like to focus on the President's economic plan, and particularly, his fiscal year 1994 budget proposals, as they pertain to the USDA. We think it is a good plan. It gives rural America a very good shot in the arm, and a chance to share fully in the President's vision for the economic revitalization of our Nation.

Mr. Chairman, the President's plan, as you well know, includes three basic components.

First, there is a short-term economic stimulus package that will affect fiscal year 1993 funding.

Second, there is a longer term investment program that will affect fiscal years 1994-97.

And third, there is a serious credible plan for deficit reduction. Clearly, deficit reduction leading to lower-term interest rates will benefit all America, especially rural America; and, most particularly, America's farm producers.

#### SHORT-TERM ECONOMIC STIMULUS PACKAGE

I would like to focus first on the short-term economic stimulus package. The package is designed to produce more jobs, by investing in the Nation's infrastructure. It also makes an initial added



investment to human capital, by providing additional assistance to people who are, certainly, in need.

The stimulus is also being proposed to provide insurance against a further lapse in the economic recovery; and, the stimulus package as it pertains to USDA includes additional funding for, First: Meat inspectors; we need more meat and poultry inspectors. We also propose construction of water and waste disposal systems, construction of single-family homes and repair of low-income housing; and repair and construction of watersheds.

Enhancing natural resource protection, environmental and recreational infrastructure in our national forests; modernizing and repairing Federal agricultural research facilities; expanding the women, infants and children [WIC] caseload; providing more commodities for The Emergency Food Assistance Program [TEFAP]; and funding meals for children added to the Head Start Program are all priority proposals for additional funding under the stimulus.

Second, as part of the longer-term investment program of the President, the budget includes program increases of about \$3.3 billion in 1994, and a cumulative program increase of \$23 billion during the 1994 through 1997 period, for the U.S. Department of Agriculture [USDA].

The Department, of course, plays a very vital role in the rural economy. The Secretary of Agriculture, under the law, is to provide leadership within the executive branch for rural development efforts. I intend to provide that leadership. Rural revitalization has been, and will be, one of my top priorities.

As part of the rural development initiative in the Clinton economic plan, we are requesting significant increases in programs providing loans and grants for community facilities, and rural businesses with an emphasis on small enterprises, to provide jobs and services for many families living in small towns.

Water and wastewater loans and grants will be increased substantially over the levels appropriated for fiscal year 1993. These increases, together with those increases included in the stimulus package, are necessary so that we can provide thousands of families here in America access to clean water and sanitary waste disposal.

Further, about \$800 million will be added to our rural housing program. In total these programs, Mr. Chairman, will provide about 108,000 housing units, a 27-percent increase over last year's level.

We are also proposing to expand and build health care facilities and enhance fire and rescue services all across rural America.

In the food safety area, there are a number of issues. First, we request that an additional 40 meat and poultry inspectors will be hired, in addition to the 160 hired in fiscal year 1993.

And a major research initiative to reduce the level of foodborne pathogens will be initiated. Mr. Chairman, this was the first issue that I had a chance to deal with, after my confirmation. I am certain that we simply must develop new scientific ways to inspect our meat supply, to ensure that our families can continue to benefit from the safest food supply in the world.

In the food assistance area, we are proposing a \$5.8 billion increase, over 4 years, in the Food Stamp Program. Food stamp in-

creases will help offset the effects of the energy tax on low-income households.

We are also proposing increased funding of about \$2.7 billion for WIC, over 4 years, so all people eligible for the program are covered by the end of fiscal year 1996.

In order to pay for meals for preschool children under the Head Start Program, we propose additional funding for the Child and Adult Care Food Program during the 1994 through 1997 period. That would build on a similar increase in 1993.

We also propose to increase competitive grants, under the National Research Initiative, by \$480 million over 4 years, to support high priority agricultural, food, and environmental research.

We also propose some discretionary reductions. There must be reductions both in the discretionary area as well as the mandatory area. The President's fiscal year 1994 budget will propose over \$400 million in discretionary savings in 1994, and \$3.1 billion in cumulative savings over 1994 through 1997.

#### DISCRETIONARY SAVINGS

An example of discretionary saving is we intend to create a one-stop shop for farmer services. We wish to call this the Farm Service Agency [FSA]. The agency will be created from current USDA agencies, serving farmers at the county and regional level.

We will try to merge the Agricultural Stabilization and Conservation Service [ASCS], the Soil Conservation Service [SCS], and the Farmers Home Administration [FmHA]. The proposal, we believe, will improve service for farmers while reducing staff needs and administrative overhead at the USDA national, State, and local levels.

I have said many times, Mr. Chairman, that my priority is to streamline, from top to bottom, starting with Washington first; and then restructuring the field offices. In setting up the new agency, we will be looking for ways to improve productivity, reduce regulatory burdens, reduce paperwork requirements, and to make our operations more farmer- and user-friendly.

We are also looking at restructuring other functions in USDA, to improve efficiency and to reduce costs. For example, we are reducing our Office of Public Affairs. I was shocked, Mr. Chairman, frankly, to find that we have 1,000 staff individuals involved in the public information and public affairs categories. I think that is too many.

Senator BUMPERS. 1,000?

Secretary ESPY. 1,000, across the Nation.

Senator BUMPERS. I want to make sure I understand this. You are saying we have 1,000 people in the Department of Agriculture, Office of Public Affairs?

Secretary ESPY. I am saying that to you, sir.

Senator BUMPERS. Are they all in Washington?

Secretary ESPY. They are not all in Washington. I want to be fair. They are not all in Washington. They serve all across the Nation. And some serve as tour guides in our national forests. However, in Washington, Senator, we have over 600. I still believe that is way too many.

Senator BUMPERS. No kidding?



Secretary ESPY. So, we are creating a consolidated Office of Public Affairs. You see, the problem, frankly, is that in USDA we have 42 agencies and offices, and each of these has an administrator. Each administrator has a spokesperson. Each spokesperson has a support staff, a graphic arts division; and we have unnecessary duplication.

So, we are far along in our effort to streamline divisions. I hope to be able to make certain announcements on these efforts very, very soon.

In addition to these restructuring and streamlining efforts, the budget before this committee proposes a number of other discretionary program changes, including the following:

Rural Electrification Administration [REA] loans, to be made at Treasury rates, while preserving loans for truly needy borrowers;

Meat and poultry inspection fees would be charged to cover all overtime work by Federal inspectors beyond the first scheduled shift;

Lower priority economic and agricultural research would be eliminated;

Funding for foreign agricultural market development activities through the Foreign Agricultural Service [FAS] would be reduced, by targeting areas where trade prospects are most promising; while, the Market Promotion Program [MPP] in the mandatory area would be maintained at the current fiscal year 1993 level;

In Farmers Home, direct farm credit would be reduced, but subsidized guarantees would be increased.

#### MANDATORY SAVINGS

We believe that we cannot reduce the deficit significantly, unless savings are achieved in the mandatory-entitlement area of the budget. Certainly, health care costs represent the most significant area in this regard, but USDA can make a contribution as well. Our farmers have already given quite a bit, and they should be proud of their contribution and what they do to produce the food and fiber has been recognized by this administration.

But we must look for reductions in the mandatory area. I want to assure the committee that, aside from a modest targeting proposal, proposed changes to the major farm commodity programs would not take effect until 1996. We will take no unilateral action that will make our farmers weaker in international negotiations. We do not want to undermine our leverage in these negotiations with cuts in farm programs, at this time.

However, beginning with the 1996 crops, we are proposing as part of the President's program to increase the noneligible payment acres of the triple base program, eliminate the 0/92 and 50/92 programs, and increase assessments on nonprogram federally subsidized commodities that are currently being assessed under the 1990 budget agreement.

Beginning with the 1994 crops, income support payments would be limited to those farmers making less than \$100,000 in off-farm income in an effort to better target these payments to smaller, family-sized operations. Also, wool and mohair direct support payments will be limited to \$50,000 per person.

And, as was discussed in the campaign, the honey program subsidies have been targeted for elimination, beginning in fiscal year 1994. This, of course, is the only commodity program that we are proposing to terminate.

In addition to these program proposals, the crop insurance program is also in need of substantial reform. We are proposing to phase in area-based insurance coverage. Under this approach, indemnities would be based on an area or county yield, rather than on an individual farm yield. We would begin in crop year 1994, by offering such insurance in those counties with the worst loss experience on an individual coverage basis.

To the extent that commodity disaster payments are made in the future, the loss threshold would be increased from 35 to 40 percent for those producers with crop insurance, and from 40 to 50 percent for those producers without crop insurance.

The President has also announced Governmentwide reductions in employment, as well as a 14-percent reduction in administrative costs over 4 years. As it relates to the USDA, there would be a reduction of 7,500 staff-years between 1993 and 1998, or a 6.7-percent reduction in staffing.

The administrative savings as a result of cuts in travel, printing, consulting, and other contractual services would amount to well over \$700 million over the fiscal year 1994 through 1997 period.

These actions are, of course, designed to improve operations and the efficiency of the Government's programs; and when these actions are completed, the USDA will certainly not look like it looks currently. It will be a leaner, more effective organization.

#### EFFECTIVENESS OF USDA

Last, Mr. Chairman, and to this committee, there has recently been a lot of publicity about the effectiveness of the USDA. There is a perception in some quarters that the USDA has become an out-moded and unresponsive bureaucracy, that it is no longer client-friendly or farmer-friendly, and that it is disinterested in reaching out beyond the traditional farmer client base to others who have legitimate and viable concerns.

I hear it. In many ways, this criticism has some validity and I promise to seriously and thoughtfully address the valid concerns and criticisms expressed, where appropriate, to make changes in USDA operations.

That concludes the comments that I would like to make today. I look forward to working with you, and working with this committee to make sure that our mutual interest in enhancing farm income and promoting the rural economy will be successful. Thank you.

#### PREPARED STATEMENT

Senator BUMPERS. Mr. Secretary, thank you for a very good statement. We have your prepared statement and it will be made part of the record.

[The statement follows:]

## STATEMENT OF MIKE ESPY

Mr. Chairman, distinguished members of the Committee, it is indeed a privilege to appear before this Committee as the Secretary of Agriculture to discuss the programs and budget for the U.S. Department of Agriculture.

At the outset, Mr. Chairman, I would like to say that I look forward to working with the members of this Committee. Because of my previous association with the Congress and my experience with rural development, food and farm programs, I intend to work hard at fostering a good working relationship between the Clinton Administration and this Committee. As you well know, the Department's programs are extremely important to rural residents, consumers, low-income persons and farmers throughout the Nation. I am excited about heading a Department that can do so much good for so many people. In order to carry out my duties as Secretary of Agriculture, I will need the help of the dedicated employees at the Department and also the help of this Committee and the other congressional committees with jurisdiction over the Department's programs.

Today, I would like to focus on the President's economic plan and particularly his fiscal year 1994 budget proposals as they pertain to the Department of Agriculture. We think this plan represents real change. It gives rural America a real shot in the arm and a chance to share fully in the President's vision for the economic revitalization of our Nation.

## CLINTON ECONOMIC PLAN

President Clinton's economic plan includes three basic components: (1) a short-term economic stimulus package that will affect fiscal year 1993; (2) a longer term investment program that will affect fiscal years 1994-1997; and (3) a serious, credible plan for deficit reduction. The deficit reduction part of the plan focuses on proposed discretionary program and entitlement savings for fiscal year 1994 through fiscal year 1997 as well as across-the-board reductions in overhead, personnel and administrative costs.

Clearly, deficit reduction leading to lower long-term interest rates will benefit all America, especially rural America which needs capital for economic growth. In 1992, interest payments on the debt were \$200 billion, over three times the total budget for the Department of Agriculture. These interest costs are eating up a larger and larger share of the budget, taking funds away that could be used for productive investment. A sound deficit reduction plan must face up to the facts and provide the realistic funding levels for discretionary and entitlement programs that will bring the deficit down. It will also require us to look carefully at how we carry out and administer programs.

## SHORT-TERM ECONOMIC STIMULUS

I would like to focus first on the short-term economic stimulus. The stimulus package is designed to produce more jobs by investing in the Nation's infrastructure. It also makes an initial added investment to human capital by providing additional assistance to people who are in need. The economic stimulus is also being proposed to provide insurance against a further lapse in the economic recovery. The stimulus package as it pertains to the Department of Agriculture includes additional funding for:

- increasing the number of meat inspectors
- constructing water and waste disposal systems
- constructing single family houses and repairing low-income housing
- repairing and constructing watersheds
- enhancing natural resource protection, environmental and recreational infrastructure on the National Forests
- modernizing and repairing Federal agricultural research facilities
- expanding the WIC caseload, providing more commodities for the Emergency Food Assistance Program and funding meals for children added to the Head Start Program.

## LONGER TERM INVESTMENTS

As part of the longer term investment program of the President's plan, the budget includes program increases of \$3.3 billion in 1994 and a cumulative program increase of \$23 billion during the 1994-1997 period for the Department of Agriculture for high priority investments in both human and physical capital.

The Department plays a vital role in the rural economy. The Secretary of Agriculture, under the law, is to provide leadership within the executive branch for rural



development efforts. I intend to be a loud and persistent voice for rural America in this Administration. Rural revitalization will be one of my top priorities. USDA programs can help lead in turning the country in a new direction.

As part of the rural development initiative in the Clinton Economic Plan, we are requesting significant increases in programs providing loans and grants for community facilities and rural businesses with emphasis on small enterprises to provide jobs and services for many families living in small towns. Water and waste water loans and grants will be increased substantially over the levels appropriated for fiscal year 1993. These increases together with those increases included in the economic stimulus package are necessary so that we can provide thousands of families here in America access to clean water and sanitary waste disposal. Further, about \$800 million will be added to our rural housing program. In total, these programs will provide 108,000 housing units, a 27-percent increase over last year's level. We also are proposing to expand and build health care facilities and enhance fire and rescue services all across rural America.

In the food safety area, there are a number of initiatives. First, an additional 40 meat and poultry inspectors will be hired in addition to the 160 hired in fiscal year 1993 and a major research initiative to reduce the level of food-borne pathogens will be initiated. We simply must develop new scientific ways to inspect our meat supply to ensure that our families can continue to benefit from the safest food supply in the world. In the food assistance area, we are proposing a \$5.8 billion increase over 4 years in the Food Stamp Program. Food Stamp increases will help offset the effects of the energy tax on low-income households. We are also proposing increased funding of \$2.7 billion for WIC over 4 years so that all people eligible for the program are covered by the end of fiscal year 1996. In order to pay for meals for preschool children added to Head Start, we propose additional funding for the Child and Adult Care Food Program during fiscal year 1994 to fiscal year 1997 that would build on a similar increase for fiscal year 1993.

We also will propose to increase competitive grants under the National Research Initiative by \$480 million over 4 years to support high priority agricultural, food and environmental research.

#### PROPOSED DISCRETIONARY REDUCTIONS

In order to reduce the deficit, spending on discretionary programs will have to be reduced. The President's 1994 Budget will propose over \$400 million in discretionary savings in 1994 and \$3.1 billion in cumulative savings over the fiscal year 1994-1997 period. A number of programs will be targeted for reductions.

A major proposal in the budget will be the creation of a single Farm Service Agency. This proposal is also known as one-stop shopping. The agency will be created from the current USDA agencies serving farmers at the county and regional level. These agencies include the Agricultural Stabilization and Conservation Service, the Soil Conservation Service, and the Farmers Home Administration. The proposal would improve service for farmers while reducing staff needs and administrative overhead at the USDA National, State and local levels. My priority is to streamline from top to bottom starting with the Washington bureaucracy first and then restructuring the field offices. In setting up the new agency we will be looking for ways to improve productivity, reduce regulatory burdens, reduce paperwork requirements, and make our operations more farmer and user friendly.

We are also looking at restructuring other functions in USDA to improve efficiency and reduce costs. I will be working with the Congress to carry through on these reorganization proposals.

In addition to these restructuring and streamlining efforts, the budget before this Committee will propose a number of other discretionary program changes including the following:

- REA loans would be made at Treasury rates while preserving loans for truly needy borrowers.
- Meat and poultry inspection fees would be charged to cover all overtime work by Federal inspectors beyond the first scheduled shift.
- Lower priority economic and agricultural research would be eliminated.
- Funding for foreign agriculture market development activities through the Foreign Agricultural Service would be reduced by targeting areas where trade prospects are most promising, while the Market Promotion Program in the mandatory area would be maintained at the current fiscal year 1993 level.
- FmHA direct farm credit would be reduced but subsidized guarantees would be increased.

## MANDATORY PROGRAMS

We cannot reduce the deficit significantly unless savings are achieved in the mandatory-entitlement area of the budget. While health care costs are the most significant area in this regard, USDA programs also must make a contribution, keeping in mind that these programs made a significant contribution in the 1990 Budget Agreement. Our farmers have already given a lot and they should be proud that their contribution and what they do to produce food and fiber in this country has been recognized by this Administration.

The 1994 budget for USDA contains savings of \$192 million in 1994 and \$4.5 billion in cumulative savings for fiscal years 1994-1997 for mandatory programs. However, I want to assure the Committee that, aside from a modest targeting proposal, proposed changes to the major farm commodity programs would not take effect until 1996. We will take no unilateral action that will make our farmers weaker in international negotiations. I do not want to undermine our leverage in these negotiations with cuts in farm programs at this point in time. However, beginning with the 1996 crops, we are proposing as part of the President's program increasing the noneligible payment acres of the triple base program, eliminating the 0/92 and 50/92 programs and increasing assessments on "nonprogram" federally subsidized commodities that are currently being assessed under the 1990 Budget Agreement.

Beginning with 1994 crops, income support payments would be limited to those farmers making less than \$100,000 in off-farm income in an effort to better target these payments to smaller, family-sized operations. Also, wool and mohair direct support payments would be limited to \$50,000 per person. As was discussed in the campaign, honey program subsidies would be eliminated beginning in fiscal year 1994. This is the only commodity program proposed for termination.

In addition to these program proposals, the crop insurance program is also in need of reform. We are proposing to phase in area based insurance coverage. Under this approach indemnities would be based on an area (county) yield rather than on an individual farm yield. We would begin in crop year 1994 by offering such insurance in those counties with the worst loss experience on individual coverage. To the extent that commodity disaster payments are made in the future, the loss threshold would be increased from 35 to 40 percent for those producers with crop insurance and from 40 to 50 percent for those producers without crop insurance.

USDA and the Department of Health and Human Services have developed a joint legislative proposal which would provide for reimbursement of State administrative costs for food stamps, Aid for Dependent Children, and Medicaid with State and Federal governments sharing equally in the cost. This would amount to a reduction in Federal funding for State administration of about \$20 million on a base of \$1.5 billion for 1994.

## ACROSS-THE-BOARD REDUCTIONS

The President also announced governmentwide reductions in employment and pay costs as well as a 14-percent reduction in administrative costs over 4 years. For the Department of Agriculture, there would be a reduction of 7,500 staff years between 1993 and 1998 or a 6.7-percent reduction in staffing. The administrative savings as a result of cuts in travel, printing, consulting and other contractual services would amount to over \$700 million over fiscal year 1994 to fiscal year 1997. These actions are designed to improve operations and efficiency of the Government's programs. When the actions are completed, the Department of Agriculture will be a leaner, more effective organization.

Recently there has been publicity about the effectiveness of the Department of Agriculture. The perception in some quarters is that USDA has become an outmoded and unresponsive bureaucracy, no longer client friendly or interested in reaching out beyond the traditional farmer client base to others who also have legitimate concerns. I promise to seriously and thoughtfully address the valid concerns and criticisms expressed and, where appropriate, make changes in USDA operations.

The Department of Agriculture has long been known as the "People's Department." Based on congressional authorizing and appropriations legislation, the Department has been mandated to carry out a broad and diverse set of programs, with a broad constituency of people who are affected by its activity. As Secretary of Agriculture, I want you, Mr. Chairman, and each member of this Committee to know that I will dedicate myself and the Department to being a positive force in improving the economic health of America, particularly rural America. I intend to work hard to ensure that people living in rural America have access to the basic services which other areas of the country take for granted—including them fully in President Clinton's strategy for economic revitalization. I will seek to reach out to all USDA constituents and become an honest broker for their responsible concerns.

That concludes the comments I would like to make today. I look forward to working closely with the Committee concerning our mutual interest in the well-being of rural America. I would be pleased to answer any questions you may have.

#### MEANS-TESTING

Senator BUMPERS. Mr. Secretary, knowing you, completely aside from the statement, I know that your heart is in the right place and that you understand that, before we can reorganize agriculture across the country, it has to be reorganized here first. I know that you have a keen appreciation of that.

Mr. Secretary, and let me say to the members of the committee, I am going to limit myself to 10 minutes, and limit each member to 10 minutes on the first round.

Mr. Secretary, my guess is, and this is really a parochial view on my part, but I can tell you that in my State one of the things that is going to cause some difficulty—you are suggesting a \$470 million savings over the next 4 years, on the so-called means-testing farm programs.

I think the rest of the members know it, but for the record, they are suggesting that if you have \$100,000 a year in income from any other source, or all other sources other than agriculture, you would not be eligible, for example, for the \$50,000 per person target pricing and agricultural program.

That would mean, we will say, some guy who is lawfully poor but he is out there farming, maybe even a sharecropper—if he inherits money and draws \$100,000 in interest, he still would not be eligible for anything under this program. Is that correct, for agricultural programs?

Secretary ESPY. Well, the Senator is aware that we are targeting \$100,000 in off-farm income; and if we stick to this as a classic definition, the Senator would be correct.

Senator BUMPERS. I used to be a drugstore cowboy, and practiced law, and farmed. I was a cattle farmer, so the programs were not all that important to me. But there were a lot of ASCS programs, for which I would not have qualified, I take it. Does this include ASCS, Soil Conservation Service, and so on?

Secretary ESPY. Yes, sir.

Senator BUMPERS. That includes everything?

Secretary ESPY. Yes; it currently does.

Senator BUMPERS. Who came up with that idea?

Secretary ESPY. Well, I can tell the Senator that I do not know who came up with it, exactly, but I did not.

Senator BUMPERS. But you are on board with it?

Secretary ESPY. Well, in my former life as a Member of Congress, I took a different view. This was not a new proposal, exactly. There are some changes in what has been proposed and we passed. But I am on record, as a former Member of Congress, to opposing this kind of effort. However, in my current life, I am a member of the team that will support it.

Senator BUMPERS. Would a person with an outside income of \$100,000 qualify for a Wetlands Reserve Program, where we take an easement on their land for 10 years?

Mr. DEWHURST. The \$100,000 off-farm income limit would apply to farm price support payments.



Senator BUMPERS. Farm price supports?

Mr. DEWHURST. Yes, sir.

Senator BUMPERS. So the answer to the preceding question was slightly misleading, was it not? For example, if I had Soil Conservation come out and test the soil on my farm, which they used to do with some frequency at no charge, that would not qualify under this? In other words, if I had over \$100,000 in outside income, Soil Conservation could still come to my farm and test my soil?

Mr. DEWHURST. Yes, sir; the \$100,000 applies to Commodity Credit Corporation [CCC] farm price support programs. The Wetlands Reserve functions under its own rules: People submit bids, and decisions are made based on the conservation benefit, and so forth.

Senator BUMPERS. We need to nail this down. You are talking mostly about target pricings, the deficiency payments, is that what we are talking about?

Mr. DEWHURST. Yes, sir.

Secretary ESPY. Yes.

Senator BUMPERS. Could you furnish this committee with a more detailed description? Maybe we have it. Do we? Could you furnish us with a more detailed description of how this would work?

Mr. DEWHURST. Absolutely, yes, sir.

[The information follows:]

#### OFF-FARM INCOME ELIGIBILITY CRITERIA FOR FARM PROGRAMS

The Administration's budget proposes that the Food Security Act of 1985 be amended to make persons with off-farm income in excess of \$100,000 ineligible to receive any CCC income support payments, land diversion payments, or price support benefits beginning with the 1994 crop year. This would help target CCC price and income support benefits to family farmers rather than high income persons not dependent on farm income. The eligibility criteria applies only to the commodity price and income support program benefits of the CCC. These include such things as: price support loans, loan deficiency payments made under marketing loan programs, deficiency payments determined by target prices, land diversion payments if they are utilized in the commodity production adjustment programs, and wool or mohair incentive payments. All other programs except for the CCC commodity program payments and price support loans would not be affected by the proposal. Therefore, such programs as the Conservation Reserve Program, Wetland Reserve Program, and other conservation cost sharing and service programs would not be affected by the eligibility criteria.

The eligibility criteria would be based on adjusted off-farm income which is defined as gross revenue from all sources except for farm income less business expenses incurred in producing revenue from nonfarm sources. Internal Revenue Code definitions would be utilized to determine business expenses (deductions) for purposes of computing adjusted off-farm income.

#### MEAT INSPECTION PROGRAM

Senator BUMPERS. Mr. Secretary, in visiting with me earlier yesterday, you said we had the Meat Inspection Program on the agenda before the E. coli breakout in the western part of the country. Is that correct?

Secretary ESPY. In my meeting with the Senator yesterday, we discussed my vision with respect to meat inspection. Based on my studies for my confirmation, it became very clear to me that we could not continue down the road that we are presently on. A meat inspection system, based on organoleptic standards which you can see, smell, feel and taste, seems to me to be fairly outdated.

And I intended to move forward soon after confirmation with a series of forums or hearings, to determine the best way to change this. And, of course, sometimes events in life will overtake the best designs of men, and we had E. coli, and we had a very serious health threat in the Pacific Northwest and Western United States.

Since then, I have jumped into this with both feet. And we are far along the road, in coming up with a more science-based meat inspection standard, for the midterm and long term. However, before we get there, we have to assure the American public that we are currently seeing everything that is seeable; which means, we must hire more meat inspectors to see what we can see.

Senator BUMPERS. Did you see the story in The Post yesterday, where 10 people have died in Florida in the past year, from eating oysters?

Secretary ESPY. I did not see that.

#### AQUACULTURAL PRODUCTS

Senator BUMPERS. It is a naturally occurring bacteria that has always been there. When I was a child, we were taught not to eat oysters because of that. But in any event, we still do not inspect very many aquacultural products, do we?

Secretary ESPY. Yes, sir; we inspect beef and poultry.

Senator BUMPERS. No; I am talking about fish.

Secretary ESPY. No.

Senator BUMPERS. Fish, shellfish.

Secretary ESPY. No, no; we do not. We certainly do not, at USDA.

Senator BUMPERS. Why? Can you give me any rationalization for having a very scientifically developed and expensive food inspection process for pork and beef and poultry, and not aquaculture?

Secretary ESPY. I cannot, to be honest with you. I think that is certainly something that bears thought. I do not know how the bifurcated approach was developed. The Food and Drug Administration [FDA] inspects fish, Commerce inspects fish, and USDA inspects meat and poultry. I do not know how that developed.

Senator BUMPERS. I wanted to say to you, Mr. Secretary, as a Senator from a State with by far the biggest poultry industry in the United States, 1 out of every 12 people in my State are directly or indirectly involved in the poultry industry, so it is very important. But I can tell you one thing: Nobody has a greater interest in a safe, edible product than the industry.

Secretary ESPY. Yes.

Senator BUMPERS. I do hope that you will keep this committee apprised, from time to time, on any additional steps you are taking on this, so we will be sort of in tune with you all along.

Secretary ESPY. I would like to compliment the industry, Senator, on its efforts to work with us to develop this pathogen reduction strategy. We have met with the industry on many occasions. We have also met with consumer groups. I have met with whistle-blowers, who have served on the frontlines of the meat inspection for many years, and they have given me several ideas that we have incorporated into our strategy. So, certainly, I will work with this subcommittee and you, Senator.



## FOOD SAFETY CONSORTIA

Senator BUMPERS. Mr. Secretary, are you familiar with the food safety consortia that this dynamite Senator got passed about 3 years ago, where Iowa and Kansas and Arkansas cooperated in a special grants program? We took poultry; Iowa took beef; and Kansas took pork. Are you familiar with that program?

Secretary ESPY. Not in detail.

Senator BUMPERS. I am going to ask you, at some time, to visit with the head of that consortium; because they have done some very, very scientific work in the past 3 years. Those universities—the University of Arkansas, the University of Kansas, the University of Iowa—have been doing this; and it would be a real tragedy not to take advantage of a considerable amount of money that we have pumped into that consortium, to do precisely this.

Secretary ESPY. Certainly. We will work with them.

## NEW MEAT INSPECTORS

Senator BUMPERS. Now, along the lines of dealing with inspection. I must say, why did we hire 160 new meat inspectors? I mean, that is just a drop in the bucket, is it not?

Secretary ESPY. We want to hire, we intend to hire, 160 new meat inspectors, if the stimulus package passes in current form. I am not aware of the changes in the stimulus proposal.

Senator BUMPERS. I mean, that would not be one-tenth of one inspector for each plant in the country, would it? How many meat, poultry, and pork plants—beef, poultry, and pork plants—do we inspect?

Mr. DEWHURST. We have got 7,000 inspectors.

Senator BUMPERS. 7,000? That is my point. What is 160 inspectors going to do? Oh, 7,000 inspectors? And how many plants?

Mr. DEWHURST. I do not know how many plants.

Secretary ESPY. I do not know how many plants, exactly.

Mr. DEWHURST. We know that the agency, given the current program and its current rules, is understaffed by about 650 inspectors right now. The Secretary has put in place a program to fill those vacancies over time. The stimulus package is the first step. If the budget were carried through, the vacancies would be filled, and the agency would, in fact, get increased employment for the industry by 1996. It is a phased kind of program. So there is some logic to it, in the sense that it is the beginning of a process. But certainly, the 160 inspectors is not some magic number that is going to solve the problem overnight.

Senator BUMPERS. Mr. Secretary, do you anticipate, just based on what you know right now, using new scientific procedures for inspecting meat and poultry in this country, do you foresee that being a laborsaving device?

Secretary ESPY. Yes, sir; we do. But I do not have any idea when we will be able to arrive at the point where we can see the real savings in the manpower part of it. We wish to develop a system based on microbiology. In many ways, we are almost there. But in my opinion, it is impractical to apply the current standard to inspecting beef. We have thousands and thousands of carcasses moving at rapid rates, which is another problem, frankly.

In the last 10 or 12 years, we have seen a reduction in the manpower of the work force here, with an increase in the rate at which the meat would come up the line. So we are trying to move these into greater balance and into greater harmony. But, as always, it is a matter of money.

Senator BUMPERS. Senator Cochran.

#### STATEMENT OF SENATOR COCHRAN

Senator COCHRAN. Mr. Chairman, thank you.

Welcome, Mr. Secretary, to your first hearing before our Appropriations Subcommittee. I want to commend you on your effort to concentrate attention on Washington bureaucracy first, rather than rushing out into the States and counties, closing offices that might or might not end up being a more efficient way to deliver services.

#### USDA REORGANIZATION

I do have some questions though, and you may be able to answer this, as to how the administration can expect to project a \$61 million savings in this fiscal year by reorganizing the Department of Agriculture, when no specific plan has been developed or agreed upon to achieve reorganization.

Secretary ESPY. Senator, I appreciate the question. We think we have a pretty reasonable guess out of the Office of Management and Budget [OMB], in consultation with USDA, to reduce between 5 and 6 percent in work force over that period of time. It is mostly based on employment, reduction in employment levels.

And we are not at the point where we can announce a plan; but I can certainly say to the Senator that we are very close to being able to do this, principally because of the good work done by Secretary Madigan. We have studies already done by OMB, and others, all pointing us in the right direction. So I do not think we need a lot of new studies. I do not think we need very many hearings, to be honest with you.

I think that we have to make certain fundamental decisions. I know how much we will save, if we streamline the Office of Public Affairs. I know how much we will save, if we consolidate the seven or eight personnel offices that we have; we have eight or nine different personnel offices in USDA, and I think that we can certainly have significant savings, if we just tend to consolidate that.

Then, together with integrated computer systems and management systems, paperwork, and then attacking travel and the rest of these assorted costs, I think that we are in the ballpark. I hope that we will be able to arrive at a savings of that level.

Senator COCHRAN. Well, I wish you well in being able to make the Department more efficient. I know you share the view with me that, in the process, we ought not to sacrifice services that are needed and that are important to production agriculture.

#### PROPOSED FARM PROGRAM REDUCTION

When you look at the proposals in the President's agriculture budget, it causes some concerns, because it seems that farm income might suffer if these proposals are adopted. The cuts in program payments and program spending would result in yet another de-

crease in farm income. I was looking at a study that had been done by Texas A&M for a research group, the Agricultural and Food Policy Center, which projects that income on Kansas wheat farms, for example, could decline up to 360 percent under the Clinton recommendations.

Another concern is the increase in taxes, such as the Btu fuel tax, on agriculture. And the increase in the diesel fuel tax, and how it would affect agriculture, adding as much as 10 cents per bushel to the costs of transportation of agricultural commodities; feed grains and wheat, in particular.

These are concerns that are not just criticisms, but are very real; and I wonder whether the effect of this budget and the proposals, all taken together—cutting back support programs, cutting back farm income supports, adding taxes that would be particularly hurtful to farmers and those in other production agriculture enterprises—would really have a negative effect on job growth and economic health at a time when we are trying to stimulate economic growth, job production, and the other factors and elements in our economy that are of principal concern.

Do you think there is a justification for cutting the farm programs, as much as the budget is proposing that they be cut? Or do you think we will have an opportunity to negotiate some of these issues with the administration, as we proceed to develop the appropriations bill?

Secretary ESPY. Senator, I think that there is a very good chance that these proposals will not look the same coming out as they look going in. But, we must reduce the budget deficit, and we must get the debt down. And agriculture has to play a role. Frankly, I think that we played a great role in the past; because our portion of the budget, I believe, if my figures are correct, is less than 1 percent, so there is really not a lot there to cut.

I am absolutely committed to improving farm income. That is why we made a decision to open up the Farmer Owned Reserve to the maximum allowable limit. We eliminated the double discount on low test weight corn, so that our farmers receive more value for low test weight corn placed under loan.

We have taken steps to suspend Farmers Home foreclosures, to give the farmers the benefit of the doubt. The American taxpayer should not have to pay for a farm that cannot cash flow, but if it can, then we think the farmer deserves the benefit of the doubt.

And when it comes to alternative uses of commodities like ethanol, in our decision to exempt ethanol from the Btu tax, we have shown our commitment to improve farm income. However, we must cut the deficit. I am in support of the general Btu tax. As I said, there are exemptions that certainly must be seen; but I am in agreement with the general Btu tax, because the overall goal, above and beyond reducing this incredible debt and deficit, is certainly reducing the interest rates on everyone, including the American farmers.

If we can just get the interest rates down as a result of a reduction in the debt—a percent or 2—that, more than anything else, Senator, will have a beneficial effect on overhead costs reduction and on the bottom line. So that is where we are focusing our attention.



Also, I might say to you that all this must be taken in context. While we are floating these proposals, we have an eye toward what is happening in the General Agreement on Tariffs and Trade [GATT]. I believe that the strength of agriculture and the strength of farm income, to a great degree, will depend on what we can do within the GATT and North American Free Trade Agreement [NAFTA]. If we have a good NAFTA agreement, then we think that will have a positive impact on agriculture of about \$2 to \$2.5 billion, in particular for dairy, beef, and corn. So all of it must be taken into context.

#### DISASTER ASSISTANCE

Senator COCHRAN. One area that is of particular concern to many States right now is the disaster assistance that is needed to overcome the devastating effects of freezing rain and blizzardlike conditions in the South, particularly our State of Mississippi, and in Georgia and Florida, where tornadoes ripped through the States and damaged, in addition to the harsh, freezing weather, much of the fruit and vegetable crops there. Flooding in Arizona has left the vegetable crops as total losses in some areas.

Earlier, Senator McCain and I, and Senator Coverdell of Georgia brought some of these problems to the attention of the Department; and suggested that it might be appropriate—if we had any unexpended disaster assistance funds that have already been authorized to be paid out for the 1990, 1991, and 1992 crop-years—that a program be developed to make these funds available to eligible disaster victims who suffered damage in this year's severe weather.

Before getting a response to that, I notice that on April 9, you announced that disaster assistance would be made available to producers of corn crops whose harvest was of low quality due to natural disasters in 1992, even though the quantity harvested would not usually qualify them for disaster payments.

My question is: Since you were able to develop some innovative approach to disaster assistance for those corn farmers, would you be able to come up with some assistance for those in the State of Mississippi, for example, where at least 80 percent of our peach crop has been destroyed, and our entire blueberry crop is gone, and early season vegetables have been severely damaged; and other States who are similarly situated?

Secretary ESPY. Senator Cochran, we would like to help. We will work with you, to help. And I think, just as we have been fairly imaginative and creative in developing solutions to farm disaster problems, we will certainly work toward doing the same thing with regards to Mississippi producers.

Senator COCHRAN. Thank you very much.

Senator BUMPERS. Senator Cochran, if I may, and I will not charge you for the time. That is a very relevant question you asked, but I think you are asking about 1993 assistance, for example, for your blueberry farmers. There is no money authorized for 1993 that I know anything about. So the authorizing committee and this committee are both going to have to come up with some money.

Senator COCHRAN. I wonder if anything was authorized for those corn farmers?

Senator BUMPERS. Yes; I do not like that, and I will come back to that. I am as upset as you are about that, Mr. Secretary.

Senator COCHRAN. We have got wheat farmers that had inadequate yields, that would also qualify, but they are not included.

Senator BUMPERS. Our wheat farmers were among them. But the point I want to make is: In 1990, when we authorized the \$1.75 billion, and then the additional \$482 million, that was for 1991 and 1992 only, was it not?

Secretary ESPY. Yes.

Senator BUMPERS. And you are talking about corn, the quality of the corn crop of 1992?

Secretary ESPY. We are talking about 1992.

Senator BUMPERS. I can tell you, Mr. Secretary, that ain't gonna fly. When you consider my wheat farmers, and his wheat farmers, and everybody else. Patty Murray has a question here. The Senator from Washington asked about their wheat farmers, who had terrible quality crops. I just do not think it is wise to just pick out a particular crop for 1992, and say we are going to provide you assistance.

#### CROP INSURANCE

Senator KERREY. Thank you, Mr. Chairman. I only have a couple of questions. I was actually going to do crop insurance last; but let me stick with it now, while we are on this question.

Mr. Secretary, the crop insurance program in Nebraska is a program that works. Our loss ratio is under one. We have seen rather steady improvement in management in the last couple of years. In this particular disaster program here, I was pleased to see that there was a requirement, at least, to purchase crop insurance in subsequent years; although I think more emphasis needs to be given to it.

I do not see how we can run a disaster program out of Washington. You just heard just a small piece of the problem. If you give me something, then you have got to give something to somebody else. And who am I to decide, sitting here in Washington, DC, who is and who is not needy? If there is an expectation that every single time somebody is not insured, they can come to Washington and get bailed out, crop insurance is going to fail. It cannot possibly succeed.

That has been the principal problem. Every single time we walk to the edge, there is always somebody that comes to Washington and says, "Well, I forgot to buy it. How about letting me have some disaster assistance? Next year, I promise, I will buy the insurance." It does not work, Mr. Secretary. The message is out there. They know they can come here and get bailed out, if they do not buy it.

Furthermore, I must say that—and I am looking at the areawide proposal that is out there, just looking at the counties that are recommended here—it is very much like saying to me you will sell me some house insurance, but it will not pay unless every house on the block burns down. That is, basically, what the areawide protection provides me. So they are not going to buy it.

And particularly, given what they hear today, they are going to say, "Well, the heck with it. Congress will bail me out. I'll hit 'em

in an election year, and they'll bail me out. I just know it will happen that way, so why buy the crop insurance?"

Mr. Secretary, I think we either have to send a message out that says we are going to have crop insurance, or pull the plug on the whole darned thing and just admit that we are going to porkbarrel the assistance. I have written a letter to Leon Panetta about this, and I would just like to know if there is anything else I can do on this proposal, to make it clear that we are going to use crop insurance as the way to control risk.

Secretary ESPY. Senator, the catch-22 aspects of the crop insurance program are quite evident, and I do not have any argument with what you said, at least within the context of what we have done with corn so far. We have required that, in order to get benefits, producers with severe crop losses will have to purchase the crop insurance for next year's crop. But that requirement is sort of after the fact. And I admit to that.

We have to fundamentally reform crop insurance. Everything you have said, I agree with. We have to mandate the signup or scrap the whole thing, and then just go to annual appropriations for anticipated disasters.

Senator KERREY. I do not look forward to doing that, Mr. Secretary. I must say, an annual appropriation for a disaster program, I think, is going to be kind of difficult to get. It is going to look like a dogpile, and I do not think it is going to be anything that is very fun to do. But let me ask you about—

Secretary ESPY. It is a very serious issue, and we are certainly dedicated to working with everybody who wants to resolve it.

Senator KERREY. It is serious, but it is not pretty to watch. That is the problem.

Secretary ESPY. No.

#### TRANSPORTATION FREIGHT CAP ON RUSSIAN FOOD AID

Senator KERREY. Mr. Secretary, as to the problem we are having coming up with a means to provide assistance to the Russian people for food. There is, as you have commented on, some difficulty with direct humanitarian assistance, as a consequence of having a \$30 million cap on transportation.

My preference, personally, is to use the commercial credit guarantees. I believe we made a mistake in 1990, and then did it again last fall, in tightening those creditworthiness requirements. And I would just like to know if the administration has considered asking Congress to change the creditworthiness test in the current law, which would give you more discretion in providing these export credit guarantees?

Secretary ESPY. Thank you for the question, Senator. I am still thinking about it. But I have a slight problem with reducing the creditworthiness standard for one nation alone, when we operate this GSM 102 program this year to 42 other nations. So just like wheat, corn, whatever, if we do it for one, we will have to do it for the others.

Senator KERREY. But the whole basis of the President's approach to Congress in this regard is to say that Russia is unique. And our whole sale will not be easy, I must say, Mr. Secretary—polls show 80 percent of the people are opposed to it anyway—unless I can



make the case that Russia is unique. It is going to be difficult for me to convince people to put money into it under any circumstances.

Secretary ESPY. If you base it on uniqueness, a Russia-only strategy, then that is something that I am in favor of, frankly. We have got to do something quickly.

Senator KERREY. Yes, I know.

Secretary ESPY. Just like crop insurance, we have got to make up our mind if we are going to do it. If we are not going to do it, then there might be some administrative actions I can take with regard to freight. But I would like, first, to see if this Congress, if the Senate will do something with regard to lifting the freight cap.

Senator KERREY. It is going to be easier to relax the creditworthiness test. But let me go on to another question, Mr. Secretary.

Secretary ESPY. Might I say, frankly, that I am very upset with what I have seen lately in the actions of our maritime industry.

Senator KERREY. I agree.

Secretary ESPY. We all know what is happening, and we have seen tremendous increases in estimated freight charges over the last 2 or 3 days.

Senator KERREY. I agree with you.

Secretary ESPY. I think it is a travesty.

#### TRIPLE-BASE LEGISLATION

Senator KERREY. You have a letter, Mr. Secretary, that was sent to you on April 16, signed by the Executive Director of the Natural Resources Defense Council, the President of the National Audubon Society, the President of the National Wildlife Federation, the Vice President for Policy, the Center for Resource Economics, the Executive Director of the Sierra Club, the Executive Director of the Isaac Walton League of America, identifying a bill that I introduced as a dangerous piece of legislation. [Laughter.]

And I would urge you, Mr. Secretary, to see this letter as the sound of six knees jerking.

This is in response to my triple-base legislation. It simply says that if we are going to break the link between benefits and mandates, we should clearly break the link. These six well-intended people misdescribed the legislation, and unquestionably misdescribed the impact.

They argue that it is going to cost money. The Chairman of the Agriculture Committee requested a CBO estimate, and CBO has come back and said that it will save \$270 million. If we are going to break the link, Mr. Secretary, and raise the triple-base to 25 percent, we break the link. It seems to me that we ought to just come and say, we understand that we are not going to get conservation on the cheap, and break the link as well on those compliance requirements.

I hope that you will not overreact to this letter, and become fearful that these six organizations represent either, necessarily, their membership, or what this Congress thinks.

Secretary ESPY. I will read that letter with interest, and look forward to participating in deliberations on the new farm bill.

## USDA REORGANIZATION

Senator KERREY. One last thing, Mr. Secretary, on the USDA reorganization. My concern is not the consolidation of offices of ASCS and SCS and Farmers Home. That to me makes some sense, to have some colocation.

I have got some concern about this cross-training proposal that I have heard, that somehow I am going to be able to cross-train a single individual to be able to do the work that is required for an ASCS person, and a Farmers Home person, and an SCS person. In fact, there has been some reference to what are essentially State employees, that the Extension Service is going to be picked up as well.

Could you respond to that? I am just trying to respond to my own constituency, who are concerned about some of the things that they are hearing. Are we going to do cross-training, or is it just colocating that we are looking at?

Secretary ESPY. Colocating is certainly the most significant element of it. And a reduction in work force would result. I would favor some form of cross-training, but to mandate that an employee could do every job is probably impractical.

Senator KERREY. Yes; I think it is very impractical. I agree, I think you certainly have assessed it the way I would. I think it would be, in some cases, advisable to have some cross-training; but to mandate it, I think, would be a big mistake.

Secretary ESPY. I made a trip into Senator Glenn's area for a rural development conference last week, and I had a chance to tour a one-stop shop in Ohio on my way to the airport. I was very impressed that there in that office we had Farmers Home Administration, ASCS, Soil Conservation Service, and Extension Service from the university there as well. And I do not believe that those employees have been cross-trained.

But there were several farmers there, working on their farm plans. All they had to do was walk several feet from one office to the other. And that is something that we would like to see.

## DEFICIT REDUCTION

Senator KERREY. Mr. Secretary, I think the farmers from Nebraska—I speak for them—they are impressed with the President's commitment to deficit reduction. They do not want me to say, "Okay, I am going to do deficit reduction, except for agriculture, or except for Nebraska."

I think we will have, unquestionably, a difficult time, and plenty of arguments about precisely where it is that we are going to get these cuts. But there is no question, in my judgment, that there is enthusiasm, great enthusiasm—probably stimulated even further by the President's remarkable State of the Union Address—to take spending down.

Secretary ESPY. Thank you, sir.

Senator BUMPERS. Senator Bond.

Senator BOND. Thank you, Mr. Chairman.

I would like to yield first, a minute, to my colleague from Pennsylvania.



## STATEMENT OF SENATOR SPECTER

Senator SPECTER. I thank my colleague from Nebraska. From Missouri?

Senator BUMPERS. He will not yield to you again, if you say that.

Senator SPECTER. I was about to say, Mr. Secretary, I join my colleagues in welcoming you here. That may be adverse, but I just wanted to interrupt for a moment, to submit some questions for the record. Regrettably, I cannot stay. But I thank the Chair, and I thank my colleague from Missouri.

## STATEMENT OF SENATOR BOND

Senator BUMPERS. Senator Bond.

Senator BOND. Thank you, Mr. Chairman. And I thank my colleague from New Jersey. [Laughter.]

And I join in welcoming Secretary Espy to this committee.

## AGRICULTURAL RESEARCH

Mr. Secretary, we have got a lot of things to talk about. We are very pleased to see you here, and some of the areas on which we agree. I am pleased that the President's 1994 proposal adds \$30 million in 1994 and \$480 million over the 4-year period, to the National Research Initiative. I think this is the direction our research dollars should be going.

I had, last Friday, a very exciting visit to the University of Missouri at Columbia, where the Food for the 21st Century Program is making some tremendous strides in agricultural research. They are ready, willing, and able to compete for competitive grants. And I think the research that is going on in agriculture across the country is very valuable.

On meat inspection—there has already been some discussion of that—the very first piece of legislation I introduced was with the chairman's colleague, Senator Pryor. We introduced the food safety research bill, which is a part of the research title of the 1990 farm bill. It was our view then, and still is, that by developing genetic engineering tests, microbiological and chemical contaminants can be identified in real time by monoclonal antibodies.

And I think that, with as much concern as we have over food safety, that some of the dollars, in addition to hiring additional inspectors, ought to go into getting the most out of this high-technology, new-technology means of ensuring food safety. I think you touched on that research earlier. Any further thoughts on it?

Secretary ESPY. Senator, I would agree with you. We have a short-term strategy, and a long-term strategy. The short-term strategy obviously includes hiring more people to man the lines, to see what can be seen. And that is pretty costly.

The long-term strategy must be in microbiology and in sound sciences. So, we have embarked on this pathogen reduction strategy, based on highlighting the extent to which we can examine foodborne pathogens. And we are well on the way to doing it, inside the stimulus package and the long-term investment package. We have a significant increase in funds for both.

## MASTER WATER-CONTROL MANUAL UPDATE

Senator BOND. Another issue that is of vital importance throughout the central part of the United States, and I know from your previous service in the Congress, you are well aware of the importance of the Mississippi and the Missouri rivers for agriculture. Have you been given an opportunity to participate through your Department in the study that the Corps of Engineers is doing, to update the master water-control manual for the Missouri River?

Secretary ESPY. I have not yet. But, President Clinton has directed Secretary of Defense Aspin to ensure our participation in reviewing any action considered by the Corps of Engineers.

Senator BOND. Well, a number of us have written to the President, saying that when the Corps undertakes this study, it is vitally important that agriculture be included. Because agriculture is vitally dependent in my State, and some other States well-represented at this table, on effective, efficient water transportation; both fertilizer going up, and food and food products coming down the river. And I have here a letter that I sent to the President, along with a number of other Senators, including a number on this committee; and his reply of March 25. Would you please consider the President's reply and review the process?

I know the last thing you need is more work, but this is of vital importance to agriculture in the Midwest.

## CONSERVATION RESERVE PROGRAM

Another thing that I have been very much interested in, in my service here, is how we can enhance conservation through the agriculture program. We have been hearing a lot about the Conservation Reserve Program. It had some good benefits. It took land out of production. People are saying it is too expensive. There may be a freeze on CRP signups.

First, what is your view of the CRP program? And second, and more important, where do you see us going when it comes time for land to come out of CRP?

Secretary ESPY. Senator, I stand in support of the CRP. An examination of the benefits within this farm bill shows me that most farmers participate. That it is costly, but I think the cost is worth it. And I would like to see it continue.

Now, whether it is increased, I think, is all a function of the budget; because the 1995 farm bill will certainly be budget-driven. But that is up to the Senate and the House of Representatives. One second.

[Pause.]

Secretary ESPY [continuing]. I am told, Senator, we have money in the budget to sign up another 1 million acres into the CRP.

## WETLAND RESERVE PROGRAM

Senator BOND. Obviously, the Wetland Reserve Program is of great interest to us as well. I think the Wetland Reserve Program has a great potential. But we have got about \$1 billion a year going into the program. Some of the land is going to start coming out in 1996. Do you all have any thoughts yet on what you are going to

do with it? How are we going to keep from losing the benefits of it?

Secretary ESPY. In the meantime, we certainly have a new farm bill, and a lot of questions will be answered in that debate.

Senator BOND. One thing that I might suggest to you, as a very high priority: A week before last, I took a visit with some folks from Missouri to Booneville, AR, in the chairman's backyard, where we talked with people at the Agriculture Research Service, Booneville, AR, Station, where they have done some fantastic things in agro-forestry.

#### ALLEY-CROPPING

Alley-cropping is permitted under the 1990 farm bill, that was a provision we worked hard to get in. And I think, as you look at some of the challenges in what to do with highly erodable land, getting people to plant it in trees, get the alley-cropping started, there are a number of ways you can do it, provides environmental benefits that are significant.

And probably the best thing about it is, the work that Henry Pierson has done at Booneville and elsewhere shows that it can be a very valuable tool for additional income to the farmers. This is a way I think we can make significant gains for the environment, prevent some of the highly erodable land from coming back into production, and do so with market-driven forces. The revenue that can be earned from nut production and lumber on it, I think this is something I certainly want to look at, and I would urge you to do so as well.

Secretary ESPY. We will.

[The information follows:]

The Department has offered alley cropping as a practice through the Conservation Reserve Program [CRP] since the 10th signup. Although this practice has some real potential for providing significant environment benefits, interest shown by producers has not been as responsive as we would have liked as is evidenced by only 53 acres being enrolled to date. It appears that producers are reluctant to enter into such a long term investment since it can take 10-15 years for a tree, such as a walnut or a pecan tree, to reach a commercially viable level of nut production and several more years before it can become marketable for lumber. Nevertheless, the Department will continue to promote this practice in hopes of generating some additional interest should funding become available for future signups.

Senator BOND. One final thing on conservation. Senator Cochran raised the question about some of the costs to farmers in this proposed Economic Plan, the cuts in farm payments, the increase in triple-basing, as well as the burdens of the Btu tax and the inland waterway fee.

Our Food and Agricultural Policy Research Institute has indicated that that would take about \$100 million a year out of net farm income in Missouri, with disastrous effects when it is fully phased in by 1996.

I think we need to look at some of the other ramifications as well, because by 1996, with expanding the triple base, the difference in return per acre for a wheatgrower, participating versus not participating, is less than \$10. For a corn-producer, it is less than \$20.

My colleague from Nebraska has raised the specter that, if we are not going to keep them in the program, then we cannot expect



them to perform conservation services. And I think that there are some of us who have looked at it who feel that this was not thoroughly thought through. That the prospect of making the farm program very unattractive, or much less attractive, economically, will drive people out; and we will have a loss of control of the environmental benefits that come about.

You mentioned that you are going to be looking at that. I hope you will give that some serious consideration, because I think that we could be looking at some unintended consequences. First and foremost, on the farmers in the program who may be driven off the farm. But second, on the other benefits that have been an important part of the agricultural program.

Secretary ESPY. Most of the program changes which you cite have been dedicated to the 1996 crops. And I would like to emphasize that when it comes to mandatory impacts, in fiscal year 1994 we do not envision a lot of mandatory cuts. We will have a very vigorous farm bill debate, and the farm bill will develop out of a consensus, I am sure. These may continue, and they may not.

But we need to get the deficit down. That is why within the 1994 fiscal year, mostly we are looking at discretionary reductions. We are taking a tremendous hit in our administrative functions over at USDA. We want to do that because then we can save money in the farm programs.

Senator BOND. I would agree with you on the need to cut the Washington bureaucracy, and I would like to privatize crop insurance, but we will discuss those later. And I thank the Chair for the time. And thank you, Mr. Secretary.

Senator BUMPERS. I want to publicly thank my colleagues and, for the record, Senator Bond, for coming down to see our Small Farm Research Center. That is a project that I got established there, simply because we used to have an old TB sanitarium and they had about 2,500 acres of land that they farmed, used the products off the farm to feed the people there back in the days of sanitariums. And we got that thing established there, and they are doing a really unbelievable job in agro-forestry research.

But the main point I want to make is not only to thank Senator Bond for coming down and spending an afternoon with me at that facility in which I have a great deal of paternal interest, but to say that so many politicians say things and do things for public consumption back home. Senator Bond did not have to come down there. But he is interested in it, and is even planting walnut trees on his own land, and that is one of the things they are doing there.

So it is a great conservationist interest to him, and he demonstrated it by that. And I hope to reciprocate. I will go and look at anything you want me to in Missouri.

Senator BOND. We have got some good places for you. Thank you. Senator BUMPERS. Senator Feinstein.

Senator Feinstein, we take people on each side in order of their showing up here.

#### STATEMENT OF SENATOR FEINSTEIN

Senator FEINSTEIN. Thank you very much, Mr. Chairman.

Mr. Secretary, I have three questions. The first is on the meat inspection, poultry inspection. The second is on some Federal clean-air standards. And the third is on methyl bromide.

#### MEAT INSPECTION

Let me ask the first. As a Senator from a western State, and I think I indicated this to you privately, I do not think this issue is to be underestimated in terms of its importance to people. And the more I talk to people about it, the more I come to the conclusion that we are in a loaded time-bomb situation; that our meat inspection techniques may be archaic.

You referred to the fact, in your answer to the question of the chairman, that you were looking at a more science-based meat inspection program. I take it that means you are looking to update and modernize the methodology involved in meat inspection.

I want to say to you, I think this is extraordinarily important. I gather there are countries that have meat inspection programs, that do it much better than we do. And one of them that has been suggested to me is France.

Well, I would like to know if you would care to elucidate on what you are doing to improve the methodology of meat inspection. And I gather it is 160 meat inspectors, plus an additional 40—or 200 net—new meat inspectors. Is that correct?

Secretary ESPY. Yes, Senator; if you combine our proposal under the stimulus plan for 160, and the proposal under the investment plan for the additional 40, then we are talking about a net 200 additional meat inspectors. This, frankly, comes about as a result of my meeting with whistleblowers.

I asked them, just about how many more do you think we need to have, to do the job adequately. This increase is based on, in many ways, their assurances; plus cost factors.

But I do not want to fool the Senator, nor do I want to fool any other member of this committee. You cannot see germs. You cannot see them. These pathogens exist in red meat. They exist now, they always have. But we need to do a better job seeing the other things that can be detected by visual examination.

Now, suffice it to say that we have to embark upon a longer-term strategy based on microbiology, being able to examine beef carcasses and poultry even, pork, for these germs, and we are trying to do that. I met with scientists from prominent universities all over the country, along with our microbiological advisory committee, and we are presently funding research to do this.

Also, we have—in layman's terms—a risk strategy from the farm to the table; being able to, hopefully, go back and examine livestock that would show the greatest likelihood of risk. We will trace it back to the farm and, through veterinary examination, we will be able to do that.

And finally, two other things. I hope to be able to develop a standard in short order, to be able to test the cow or the cattle before it is slaughtered, to see if that particular animal has any prominent degree of disease.

And then last, we are looking at irradiation. Frankly, it has been proven to be a way to eliminate germs. I am not announcing it

today, I certainly am not doing that. And I do not want to risk frightening anyone. But we are looking at the idea of irradiation.

Senator FEINSTEIN. Well, of course, that is the French way.

Secretary ESPY. Right.

Senator FEINSTEIN. But the point I wanted to make to you is that I believe this a priority. I mean, if it is true that a failure in the slaughtering system that perforates the intestine produces the E. coli bacteria in meat, then I think it is a real problem. And I think that I just want to indicate to you that it is a problem, and I would very much appreciate your giving it a high priority.

Secretary ESPY. Irradiation has already been approved for poultry, but it is not being used right now. But, not for beef it has not been approved yet.

Senator FEINSTEIN. The second thing is methyl bromide. As you know, the EPA has decided to phase out the use of methyl bromide by the year 2000. It is a widely used soil fumigant on crops, fruit, vegetable, tree nut crops, and so on. And it is the only one, I am told, in its category.

In California, I am told that this phaseout can cost annual losses nationally of over \$1 billion to the agriculture industry. There is a great deal of concern among the growers in California about this methyl bromide phaseout.

Would you be willing to meet with representatives of producer groups, who would be adversely impacted by this decision, in order to discuss funding some producer-based research initiatives?

Secretary ESPY. Certainly, but we have done more than that already. We met with the Director of the EPA, and we have met with representatives of the Vice President's office, and other responsible members of this administration, to tell them that what we would like to do and have it based on sound science. We believe that an examination of sound scientific principles will not reveal methyl bromide as an ozone depleter, or something that should be phased out.

So we talked with them, shut the door and talked about it. And we reached a compromise. Basically, what we are saying is that USDA will allow EPA to classify this as a class 1. But, whereas the others must be phased out by 1996 or perhaps even earlier we would not touch methyl bromide, either the use or manufacture, until at least the year 2000. That will give us the time to do the work, to do the sound science, to see whether or not it should be phased out.

And they agreed with this, and that is the approach we are taking.

Senator FEINSTEIN. I think it would be very useful, then, for you to meet with many of the grower groups who are also concerned. Because one of the allegations against methyl bromide is that it impacts the ozone layer, and I do not think there is any direct evidence of that effect. But it is out there. So I think the degree to which the agricultural producers can be consulted, it would be very helpful.

Secretary ESPY. I would just like to highlight this, Senator, because this is an approach. While a member of Congress, I would always hear that USDA could not work with EPA. EPA was an



enemy of USDA. And I would just like to tell this committee that we are working together.

We do not currently have an alternative for methyl bromide. It is a very valuable tool used to fumigate soil. Also, it is often used as the last application for items of export, which we certainly need to increase and enhance. Therefore, since we do not have an alternative, we did not wish to list it as a class 1 depleter that would be phased out in the near term. We do not have the time to develop an alternative for methyl bromide, so EPA heard our position, and we worked together on this in trying to arrive at some workable solution.

#### FEDERAL CLEAN-AIR STANDARDS

Senator FEINSTEIN. The last question I have been asked to ask by a Congressman from the San Joaquin Valley. As you probably know, the Federal Clean Air Act requires that so-called nonattainment areas attain Federal particulate matter standards by December 31, 2001. And the San Joaquin Valley, a large agricultural producer, is a nonattainment area.

There was a research plan that was put in place jointly, State, local, Federal partnership, where each element would contribute to fund a research project, with funds from the State of California and the private sector. I am told that, to date, the USDA has not contributed to this project and that your fair share would be about \$1 million per year for 5 years.

I would like to ask that you, and perhaps you might look at this at a later time, put forward in writing how you would meet your obligations for 1993, 1994, 1995, 1996, and 1997, under this cooperative agreement.

Secretary ESPY. Thank you, Senator. We will look into it. I am not aware of the specifics of this program. Steve, are you?

Mr. DEWHURST. No.

Senator FEINSTEIN. The Congressman is Calvin Dooley, from California, and perhaps you would let both he and I know the results of this. I would appreciate it very much.

Secretary ESPY. Yes; By the way, Senator, I would like to publicly apologize to you, as I have already done to the Governor of California, for our Medfly faux pas.

Senator, we had a problem in the first month after confirmation. I guess you could say I was there "home alone," and there was a letter sent to the Governor of California, concerning the Medfly eradication project, and whether we could continue with our share of the cost-share program.

And the letter, which I had not seen and did not sign, said to the Governor of California that the USDA would cease its participation in the Medfly, and that the State would have to tell us very quickly how they would assume our share; or else we would quarantine the entire State of California. Well, that is not something that we would do; and not something that we could do.

I talked to the gentleman that wrote the letter, and I would like to assure you that that is not going to happen. The Senator is aware that we have come up with our part of this money, and we will continue to do it.

Senator FEINSTEIN. Mr. Secretary, let me just thank you very much. You move very rapidly and I, for one, appreciate it. And I think it set aside a lot of fears of people in this State. And I might say, I was also very heartened to understand that you knew the impact that the Medfly is having, and the fact that it is probably endemic, and that it is a major thrust—along with other pests—that really endangers the industry. Thank you very much.

Senator BUMPERS. Senator Harkin.

#### STATEMENT OF SENATOR HARKIN

Senator HARKIN. Thank you, Mr. Chairman.

#### ALTERNATIVE AGRICULTURE RESEARCH AND COMMERCIALIZATION

Mr. Secretary, first I was pleased that the President's budget requests a \$20 million appropriation for the Alternative Agriculture Research and Commercialization Program. This is something I had worked on for several years, finally joined by Senator Conrad when he came to the Senate; and it was included as part of the 1990 farm bill. The board has been set up, it is in place now, and they have been starting to move ahead on it.

I have long believed that our research efforts at the Department of Agriculture, for too long, were focused on how to produce more. I have often had people say, "We have spent all this money on production, and then we turn right around and we pay farmers not to produce so much." And people kind of think this is kind of odd, that we ought to be focusing more of our research on how we take these crops and use them for alternative methods; alternative products, nonfood, nonfeed type uses. And that is the reason to set this up. Senator Conrad's thrust in that was more toward the commercialization aspect; I was looking at the research end of it. So we married the two together, and got it through.

Right now, due to my experience on the House side, back in the 1970's, we had a program with NASA where we put money into a new engine development program. And NASA was repaid back by the company that developed these quiet engines. And so the Government actually made money on that investment.

So we used that same concept with the ARC Board. They have a variety of means that they can take a position with one of these companies; for example, they can take an equity position, they can just have a simple payback provision, or one of the other provisions we have put in there is that they could use like a convertible debenture process. I have found that to be the one that a lot of these companies are really interested in. And by using this, the Government's investments are fully protected, and the agricultural research acquires a chance to fully benefit from any major financial successes.

So, I guess, two things: First of all, I appreciate your asking for that amount of money. I hope that you will take a personal look at this, and put it high on your scope. And also, would you take a look, again, at using the convertible debentures to get the Government's position in with these companies in this process?

Secretary ESPY. Thank you, Senator.



We can appreciate this program. I think it is very viable. It is a good idea. That is why we have targeted increased funding for it.

The future of agriculture, particularly improving farm income, ought to be in areas like GATT and NAFTA and exploring new markets. But it is certainly also in exploring new and alternative uses for what we grow, particularly in the nonfood context. And I think it is a great program.

Senator HARKIN. There are some exciting small companies that are doing interesting things on this, very exciting, very challenging.

#### WASTEFUL SPENDING PRACTICES

Mr. Secretary, more towards the questioning here: I wanted to mention an article that appeared in the Washington Post. It had to do with Vice President Gore's visit to the Department, and the problem of a Farmers Home Administration employee who brought to your attention and his attention massive wasteful practices, including \$3.5 million in unnecessary furniture purchases during the last 2 months of the fiscal year.

Evidently this employee, according to the article, had brought this to the attention of the Inspector General's Office; and when he did, he said the inspector general turned on him and then, rather than remedy the situation, senior managers instead turned the probe into an investigation of him, and impugned his character.

Now, I do not know the facts of this case, I only know what I read in the paper. I just hope that you will look into this matter carefully, and take a look at that.

We cannot have the kind of waste and abuse that we have had, and then have a whistleblower come forward, only to have the inspector general's office turn against him, especially in the Farmers Home Administration, especially there.

So again, I do not know the facts in the case. But I do hope that you would take a look at it, and the Inspector General's Office at the USDA. The inspector general is supposed to be independent. They are supposed to do their investigations, and I would hope that there would be some resolution of this case, so we can get some of the facts on it.

Secretary ESPY. Senator, I agree with you. We encourage whistleblowing. I have met with whistleblowers in the meat inspection context already. It was a private meeting, at their request; but I did meet with them. And I also met with several employees having gripes against the Department of Agriculture. Frankly, I have met with teems and teems of employees since I have been there. And I will continue to do that.

Also, I have to say publicly that we will not tolerate any reprisals against anyone telling on others. We just cannot do that. There will be no cultural reprisals at the USDA.

Senator HARKIN. Mr. Chairman, I hope that we will also take a look at the effectiveness of the inspector general's office. I have been very pleased with some of the inspector general offices in some of the Departments, that have been very independent, that have really gone in and ferreted out some wasteful practices. And I hope that this is also the case at USDA, that we have a good, effective inspector general's office there. I do not know, I guess I

only know what I have heard from the story. And I have had a lot of people ask me about it.

Secretary ESPY. We can do it better. Frankly, we are waiting until we get some nominees confirmed, until we move on many fronts.

#### USDA REORGANIZATION PLANS

Senator HARKIN. Let me just ask you about the reorganization plans. First of all, I just want to state for the record, I believe we can reorganize; and I believe that we can consolidate some of these offices, and still provide the same services to farmers. I believe that. I think there is too much wasteful practice out there in USDA. I believe a lot of these can be consolidated without losing the effectiveness.

But, I wanted to sort of contrast the reorganization efforts at the county level with what is happening here.

The budget indicates saving in staff-years through consolidating ASCS, SCS, and Farmers Home into one farm service agency, which is fine. I think we could probably do something like that. But it is a 23-percent reduction in staff-years, from 1993 to 1998; 28-percent reduction overall.

But at the county level, the staff-years would fall from 15,000 to 11,000; it is a 26-percent reduction. So a bigger reduction on the county level than overall. So it looks like the counties are taking a greater reduction than Washington, or some of the administrative offices.

It seems even sharper when we compare next year, fiscal year 1993, to 1994. The combined staff-years for ASCS, SCS, and Farmers Home in 1993 is 29,577; in fiscal year 1994, after consolidation, the total for this new farm service agency will be 28,181; that is a decline of 4.7 percent.

In contrast, look at the county offices: The staff-years are expected to decline 9.6 percent, twice as much as the overall. Again, I am not saying we cannot stand reductions to the county level; I have already stated I know we can. But it seems to me that these percentage reductions at the county level ought to be matched by percentage reductions also at the administrative level also.

Secretary ESPY. Yes, sir; I will turn to Steve Dewhurst to answer that.

Mr. DEWHURST. I think it is important to recognize that the county office employees in the numbers you have cited, of course, are the county office employees of the ASCS. We also have county office employees in the Soil Conservation Service, and in the Farmers Home Administration, who are included in the Federal numbers that you see on some of those tables.

Obviously, the intent over time is that there will be one Farm Service Agency. There will be reductions in manpower. There will be reductions in overhead manpower in Washington, or in administrative functions that are at least equivalent to, or greater than, the cuts at the county level.

The numbers that you are reading from in the book we produce. We tried to show the separate county office workers in ASCS, because we did not know how they would be treated in the ultimate organization. They come out being cut a bit deeper, because of the

math of the budget, than some of the other functions. But that is a problem in the math of the budget, that was not the administration's intention. The administration's intention is that cuts in headquarters in Washington, staff and administrative functions, will be at least equivalent and probably greater than cuts in the local area.

So, I guess that is a long way of telling you that on some of those numbers, we made a mistake in the book. And I apologize to you for that.

Senator HARKIN. I appreciate your candor very much. I appreciate that candor. So again, you are going to take a look at this?

Mr. DEWHURST. Yes, sir.

Senator HARKIN. And try to get those equivalent? Well, I appreciate that very much.

Secretary ESPY. Senator, within the next 18 months, I have been informed that we have a significant number of Executive Service individuals eligible for retirement, almost up to one-third of them. And that is a significant number, and most of that is going to be in Washington.

#### ECONOMIC RESEARCH SERVICE

Senator HARKIN. I also notice that the Economic Research Service is reduced by 14 percent, again compared to the 23 percent overall for the Farm Service Agency. Again, I do not think there is anyone on this committee, or on the Agriculture Committee, the authorizing committee, that just has not at some point—probably at least once a year, probably more than that—been simply astounded by some of the findings of the Economic Research Service.

In fact, I think I dare say that in the past we have gotten better information from outside sources. We have a small agency called FAPRI, the Food and Agricultural Policy Research Institute, located in the University of Missouri. I think they get about \$400,000 a year—\$500,000, 8—I do not know; \$750,000 a year. And what they are tapped into is, they are tapped into a lot of universities.

I know Iowa State is involved, but they tap into the University of Nebraska and all these other universities around, the land-grant colleges; and they tap into their economics departments and their agriculture departments, and they get the information. And they seem to do it in a very efficient manner. And that is only costing \$750,000 a year. I think that is down from what it used to be in the past.

So again, you might look at some of these outside sources which take a little bit of funding, which do a lot of work and give us a lot of information. And you might find that we could save a few bucks and a few personnel there, too.

I just offer that, because I think FAPRI has done a great job in the past. They have done some really good work for a mere pittance, \$750,000.

Secretary ESPY. Senator, just a word. I have not yet offered anyone's name to our President for the positions of Assistant Secretary for Economics and Assistant Secretary for Science and Education, because I have some plans for those, if I am able to do it. And it will include the Research Service.



Senator HARKIN. I appreciate that very much. Thank you very much, especially for your candor on that one answer. I appreciate that. Thank you.

Senator BUMPERS. Senator Gorton.

#### STATEMENT OF SENATOR GORTON

Senator GORTON. Thank you, Mr. Chairman.

Just a brief opening statement, Mr. Secretary, partly at least to thank you for your prompt action, along with that of U.S. Trade Representative Kantor, with respect to the continuing apple boycott which Japan has imposed on the United States, and most particularly from my own State. I appreciate that considerably.

I also need to say, as a matter of an opening statement, that much of this budget presentation is vague, particularly many of those items which deal, peculiarly, with Western States—more specifically grazing fees, and the position of the Federal Government on below-cost timber sales. There is not enough in this budget to tell precisely what the policies are that you wish to follow, and the sooner that that can be rectified, I think, the better off we are going to be.

But I guess my first question relates to the macro budget, the overall direction of it. As I figure it, you have adopted the technique of offering a page of investments without offsets—a page of investments which puts the overall spending on the programs included within the USDA budget above the budget caps. And as a result, either we as a subcommittee, or you as Secretary of Agriculture, is going to have to come up with more than 1 billion dollars' worth of offsets in order to fund your proposed investments.

#### ADDITIONAL USDA BUDGET SPENDING OFFSETS

My first question of you is whether or not the Department itself is going to come up with a proposal to offset the requested additional expenditures and investments, or however they are titled?

Secretary ESPY. You mean offsets from—

Senator GORTON. Spending offsets.

Secretary ESPY. Yes, sir; offsets based on spending increases contemplated in the stimulus package? Or offsets in the investment package?

Senator GORTON. Offsets in this investment package, and what you have here as a budget for a supplemental for this year and for the succeeding year.

Secretary ESPY. But, it is in three parts. I am just interested in targeting the question.

Senator GORTON. Well I think, to be perfectly honest with you, Mr. Secretary, the question with relation to the present stimulus package on the floor of the Senate is very likely to be academic. So, why do we not take up the other two?

Secretary ESPY. Well, I hope not. Because we have done much with regard to meat inspection in the Senator's home State, and I would sure hate to see that hurt because we do not have enough people to do the job. But that is another question.

I think that the offsets are there, when you look at what we plan to do in discretionary reductions, what we plan to do in mandatory



reductions; and, to be honest with you, Senator, I think that we have treated this very gingerly. Because, in my opinion, we have cut agriculture a heck of a lot over the last 10, 12 years, we really have. So, when you reach in to try to reduce the fundamental aspects of the farm program, that is something that I certainly disfavor. And I am proud that we really have not done that.

When we start touching the fundamental farm program aspects, we did not even propose that until the 1996 crop year, and the Senator knows, as well as I do that much will take place before we get to that point. We have got a NAFTA agreement, hopefully. We may have a GATT agreement. We certainly have a farm bill to negotiate. And so, a lot of this will change.

But, in our 1994 budget submission, we think that we have taken the hit in offsets, mostly in administration; and then some discretionary savings elsewhere, as we have presented today.

Senator GORTON. Do you think you are within the caps, with this budget?

Secretary ESPY. Let me turn to Steve.

Mr. DEWHURST. Well, I am not sure. The Secretary's budget has about \$1.2 billion in increases in it, in investments and outlay terms, and it has about \$1 billion in reductions. So it does not quite balance.

But that is a matter of Governmentwide priorities, over which he has no control. We support the President's budget. So we are not in a position of coming up with another \$200 million in reductions.

Senator GORTON. OK, then you have answered my question. If we are going to stay within the budget resolution that was passed by the House and the Senate, we are going to have to find those offsets.

#### BACKHAULING BILL

At the time of our first meeting, Mr. Secretary, when we were speaking about the E. coli epidemic in my State, I asked you a question about backhauling and the backhauling bill which was passed. You said that you thought you would speak very, very promptly with Secretary Peña on that.

We have not heard anything on that. Have you spoken to the Secretary? Do you know anything about when and how that backhauling set of regulations is going to be signed and implemented?

Secretary ESPY. Senator, I remember that conversation and I have to admit to you that I have not talked to Secretary Peña directly. However, the Acting Assistant Secretary for Marketing and Inspection, Mr. Kenneth Clayton, has talked to his counterparts over there. I cannot tell you whether anything is going to be signed because that is up to the Secretary of Transportation to do.

But we have talked to him. My position is rather similar to your position, in that it all comes within the entire context of food safety and we need to assure the American consumers that we are not transferring agricultural commodities in the same type of trucks that just offloaded rubbish.

So we made our position known, and I will provide the committee the status of this action for the record.

[The information follows:]

## BACKHAULING

The Agricultural Marketing Service met with the Department of Transportation on a number of occasions during the development of regulations for implementation of the Sanitary Food Transportation Act of 1990. The proposed rule will include an exemption for farm vehicles that should significantly reduce the regulatory impact of the proposed regulations on farmers, while not putting consumers at greater risk. The regulations do not propose any additional regulatory functions for any agency of the Department of Agriculture. The proposed rule is expected to be published on May 21, 1993. However, a final rule is not expected to be published until late 1994.

Senator GORTON. Good enough. Under those circumstances, you have kept your commitment to me and we will have to pursue him on the rest of it.

## JAPANESE BOYCOTT OF U.S. APPLE IMPORTS

Let me go back to the question of apples. You have done a good job in signing the letter to the Japanese Agriculture Minister with Ambassador Kantor. Do you know what follow-ups are taking place? Do you know, for example, whether or not the President brought this specific subject up with the Prime Minister of Japan at the time of their conversation?

Secretary ESPY. Senator, I do not know if the President did, but I know that I did. When I met with the Ambassador to Japan in a personal meeting in my office, I raised this issue very vigorously and I told the Ambassador that it is rather disingenuous on their part to continue to disallow apples, American apples, into their markets based on some phytosanitary standards that really to me constitute a facade.

The Senator is aware that the apple industry along with the USDA, have gone above and beyond the call of duty in trying to comply with the Japanese standards. We have. We spent a lot of money on it. We have complied with it to every degree.

To continue to disallow our apples into their market is just beyond me, and I talked to him in these type terms. And he answered very promptly, basically saying that they would continue, and that is what they have done.

I met yesterday with members of the media, Japanese media, and I reiterated this. I hope that they would review their position.

Senator GORTON. Well, again I want to thank you. I have had similar conversations with the Ambassador, and we get fair words, but so far we have not gotten much of the way of action.

I do want to say, however, that I can compliment you, and Ambassador Kantor through you, for bringing this to a higher level than the previous administration did and for, as far as this Senator is concerned, working diligently on behalf of opening markets in that field and in a number of other fields as well. I can tell you I appreciate it and the people whom I represent in the State of Washington appreciate it.

Secretary ESPY. Thank you, Senator. That is why we do not believe that the Blair House has been completed, and that is why we do not think, as much as we want a GATT, that is why we do not think that we were able to sign one now, because of actions such as this one on the part of Japan on the questions of market access.

I favor the current GATT trend when it comes to export subsidy reductions and internal reductions, but the market access question

is one that we must reach some satisfaction on before we are able to sign anything.

Senator GORTON. Thank you.

#### BELOW-COST TIMBER SALES

On a different subject, in which I am not sure we see quite so eye to eye, you propose to eliminate below-cost Forest Service sales, timber sales, during the course of the next 3 years. Can you tell me at this point, given your formula, which national forests will face a closure or a near-closure of timber sales as a result of those changes of policy during the course of the next 2 or 3 years?

Secretary ESPY. Senator, I am not able to at this time, but I assure the Senator that out of the timber conference or the forest conference which we recently held in Portland there will be a plan with some specificity.

Senator GORTON. This question is broader than the forest conference in Portland. I am speaking of all the forests in the United States now.

Secretary ESPY. Well, I am not able to answer, Senator, at this moment.

Senator GORTON. Is that because you have not come up with a specific formula yet by which you determine what the cost is, and what goes into those costs? And if so are you not giving us a general goal without providing specific details?

Secretary ESPY. I am not expressing any goal now. I am just saying I will tell the Senator as the information becomes available.

Senator GORTON. No; I understand. But you have expressed the goal that you are going to phase out below-cost sales, but I take it you have not yet made a determination of what constitutes costs for the determination of what is below cost. Am I accurate, or have you done so?

Secretary ESPY. I have not had these type of discussions, so personally I am not able to answer.

Senator GORTON. Thank you very much. I thank you, Mr. Chairman.

Senator BUMPERS. Thank you, Senator Gorton.

Senator Kohl.

#### STATEMENT OF SENATOR KOHL

Senator KOHL. Thank you very much, Mr. Chairman.

Secretary Espy, as you know, we have discussed my concerns about the current structure of the milk marketing order system. Now, I appreciate your difficult position in trying to make needed reforms in this system. Even though the current system for pricing fluid milk, which is based on the distance from Eau Claire, WI, is widely agreed by agricultural economists and others to be outmoded and categorically unfair to the Upper Midwest, nevertheless many other dairy producing regions of the country have benefited from this system and so it continues.

Mr. Secretary, the Congressional Budget Office has estimated that the milk marketing order system costs the Federal Government about \$1 billion over a 5-year period, mainly through the artificial increases in dairy production that the current system encour-



ages. The extra milk produced ultimately ends up adding to the surplus in dairy products and results in higher CCC purchases than necessary.

In the current budget climate, would it not make more sense to move toward elimination of the outmoded milk marketing system in order to save taxpayers money and to more fairly reflect the changes in dairy production since the system was established now many, many years ago?

#### MILK MARKETING ORDERS

Secretary ESPY. Senator, thank you for the question. I would hesitate to change the milk marketing structure presently, knowing that we have problems. We do have problems, but I would just say to the Senator that that is an element within the farm bill and the farm bill will be coming up for discussions next year. I am certain that this will be a significant part of that discussion.

In anticipation of that, I announced yesterday that we would be having a series of forums to discuss the threshold issues in agriculture over the next decade or two, and part of that will certainly be discussing the farm program, the changes in it, the convoluted aspects of some programs, the geographic discrimination within the farm bill programs, and how we can change them.

I would certainly be willing to include discussion of milk pricing structures and marketing structures within our forum, and I would invite the Senator's participation.

Senator KOHL. You will have it.

Did I hear you to suggest that you are aware, and at least to some extent sympathetic, to concerns about the current milk marketing system, in the sense that it discriminates against a State like Wisconsin?

Secretary ESPY. I did use that word. I am aware of the feeling among many that there is a differential which is tantamount to a discriminating factor in pricing based on region, yes, I am. I am aware of it.

Senator KOHL. Well, aware of the fact that it exists, yes. I mean, that is what we are discussing. I would like to come away from this with some understanding of your position. I would like to come away with some sense that you are sympathetic to this discrepancy, and to the fact that the justification for it which used to exist many years ago is not nearly as defensible today.

While I do not want to put words in your mouth, is that somewhere close to a fair statement of how you may feel?

Secretary ESPY. I would say to the Senator that there are many, many commodities presently targeted within the farm bill that must be reviewed in light of present circumstances. In our mandatory cuts or those that we suggest to be cut, we talk about wool and mohair, we talk about the honey program, and clearly there are some programs that must be held to the light of scrutiny under the fiscal urgency standard that we have.

I would say to the Senator that there are others beyond honey and wool and mohair that must be reviewed and I hope to review them. But it is a part of the farm bill. The Secretary of Agriculture has very little discretionary authority within the current farm bill, about 30 percent. The rest of it lies within the House and Senate.



## BST

Senator KOHL. All right, Mr. Secretary. I would like to move on to BST. As you know, I have shared my concerns with you regarding BST and the potential negative economic effects on dairy producers that it may have.

I also have concerns about the potential negative effects of BST on United States dairy product exports to countries that currently ban the use of BST. I believe that the administration and Congress ought to be working together with dairy representatives to address these economic issues surrounding the use of BST before it is very possibly approved for commercial use by the FDA.

Secretary ESPY. Yes, sir.

Senator KOHL. On the question of labeling, some dairy processors have signaled their intent to voluntarily label their product as BST-free, and there are other efforts to require labeling across the board.

Next month FDA will be holding a hearing to discuss the labeling issue with regard to BST. Will you be testifying at that hearing and/or will the USDA be taking a formal position on this issue of labeling?

Secretary ESPY. Senator, I do not believe that I was asked to testify at that hearing. I can check the request, but I believe I would know had I been asked.

I do not know if I would or not, to be honest with you. This is, the release of BST, is within the province of the Food and Drug Administration [FDA], and I have not talked to Mr. Kessler about it at all, but I will tell you, I am concerned, just as I am concerned with irradiation and the chilling effect that that might have on consumer preferences.

I am concerned about the consumer perception with regard to BST and I want to do all I can do to assure the American consuming public that what we market is safe. If I have any problem with their perception, we will either embark upon a strenuous education program or we will attempt to persuade others to resist the marketing of it until that perception has been changed.

Senator KOHL. OK, but I just want to call to your attention that, next month, FDA will be holding a hearing on the issue of labeling. And although you can and do contend with some justification that it is not within your jurisdiction, that it is an FDA issue, nevertheless it certainly does have an enormous impact on the Dairy Program in this country, which is something of great concern to you, I know.

Secretary ESPY. Yes, sir.

Senator KOHL. I know you are aware of it, but I call it to your attention because maybe you ought to consider, even if you were not invited, at least sending somebody who could take an official position on behalf of USDA.

It would be of great interest to my State, of course, and I am sure other States as well.

Secretary ESPY. Right. We have not taken, as you know, an official position at USDA and in all honesty once more I am not sure that we would have developed one by next week. But we have briefing papers being written on BST as we sit, and once these pa-

pers have been presented I will review them and I will make a decision.

I will discuss it within an interagency context. As the Senator knows, the Dairy Program is within the province of USDA, but there are other aspects of Government also involved in this issue and we have to discuss it with them in order to come up with a USDA position.

I will not hold out any hope that we will have a position formally developed by next week. But we are moving on it.

#### PRIME TIME LIVE TELECAST

Senator KOHL. The hearing is next month.

One more question, Mr. Secretary. Several months ago, the television show "Prime Time Live" highlighted USDA's efforts to study ketchup flow and pickle stems as examples of Government waste. Do you believe that these programs are justified and, if they are not, do you plan to eliminate them?

Furthermore, do you think that there are other programs such as these programs which could be discontinued?

Secretary ESPY. Senator, this is also something that I was really unaware of until it was brought to light by that program, and while I think that flow-rate measurement is a little bit ridiculous, there are some grading standards that are absolutely valid.

We have talked to the employee with regard to the flow-rate matter and he says also that he does other things. He also examines the stems of pickles, which to me, again in the context of this fiscal urgency we have, seems to be a little bit much.

That is why in this budget we talk here about user fees for grading purposes; however, to me there are some programs that are a little bit ridiculous and should be phased out.

Senator KOHL. Thank you very much, Secretary Espy, and thank you very much, Mr. Chairman.

Senator BUMPERS. Senator Kohl, if I ever become chairman of the powerful and prestigious Senate Restaurant Committee, I can tell you that every salt and pepper shaker in all those restaurants is going out in the Chesapeake Bay. They are designed to make sure you do not get any salt and pepper out of them. So maybe the ketchup flow issue is bigger than we think. [Laughter.]

Senator KOHL. That is right.

#### DISASTER ASSISTANCE FOR LOW-QUALITY WHEAT

Senator BUMPERS. Now, Mr. Secretary, I wanted to ask you a question on behalf of Senator Murray of Washington and myself and Senator Cochran. Why is wheat any less eligible for assistance for the lowered quality of the product than corn for 1992?

My wheat farmers had a much diminished test weight, just as they had in Washington. Why corn?

Secretary ESPY. Senator, I do not believe that we have had a distress petition on wheat so far as I know. We have not had anyone formally request that we review wheat for disaster assistance because of a quality problem. In fact, I have been reading—and again, it is just what I have read—that the wheat crop was pretty good insofar as the moisture damage aspect.

I may be wrong, but we have had such a presentation for corn and we have also had one for potatoes. We try to do this on a case-by-case basis.

Senator BUMPERS. Well, I can tell you when this bill comes to the floor you are going to have some amendments to equalize that. You have the administrative authority to do that, there is not any question about that. But in any event, let me move on to another question.

You are asking this committee to institute user fees in a lot of agencies, to change the REA program, to reform the crop insurance program. And all those things are problematic for us because they probably involve testimony to be provided to the authorizing committee, but the savings to be generated are being attributed to the Appropriations Committee.

Now, what I want you to do, Mr. Secretary, is to provide this committee with a list of what you think this committee's responsibility is in generating the savings in both budget authority and outlays, and we need a breakdown of which proposals are requested to be enacted through both the appropriations bill and the authorizing committee, so that we know what is expected of us.

[The information follows:]

#### DEPARTMENT OF AGRICULTURE 1994 SAVINGS PROPOSALS THAT REQUIRE A CHANGE IN LEGISLATION

[Dollars in millions]

Program	1994 budget	
	Budget authority	Outlays
<b>Legislative Changes to Appropriations Committees</b>		
New user fees:		
Food Safety and Inspection Service .....	- 104.0	- 104.0
Agricultural Marketing Service .....	- 6.2	- 6.2
Federal Grain Inspection Service .....	- 6.9	- 6.9
Agricultural Cooperative Service .....	- 0.4	- 0.4
Rural Electrification Administration: Make loans at Treasury rates .....	- 194.0	- 27.0
Reform the Crop Insurance Program .....	- 105.0	- 105.0
Total, Appropriations Committees savings .....	- 299.0	- 132.0
<b>Authorizing Committees</b>		
Commodity Credit Corporation:		
Farm payments limited to those with less than \$100,000 in off-farm income .....	- 75.0	- 75.0
Limit wool and mohair direct support payments to \$50,000 per person .....	- 10.0	- 10.0
Honey subsidies would be eliminated in 1994 .....	- 12.0	- 12.0
"Triple base" acres would be increased from 15 to 25 percent .....		
Increase assessments on nonprogram crops .....		
Eliminate 0/92 and 50/92 programs .....		
Market Promotion Program continued at current level .....	- 52.3	- 52.3
Reform the Crop Insurance Program .....		
New user fees for marketing agreements and orders .....	- 10.7	- 10.7
Food and Nutrition Service: Reduce Food Stamp program administrative expenses .....	- 20.0	- 20.0
Total, authorizing committees savings .....	- 180.0	- 180.0

Senator BUMPERS. It seems to me that on the Federal crop insurance program you are suggesting that we make changes through both committees, so we need to get that resolved.

Secretary ESPY. We will do it.

#### WETLANDS RESERVE PROGRAM

Senator BUMPERS. Now, on the Wetlands Reserve Program, we are spending—you know, so far as I am concerned it is a fine program, but it was politically administered. The reason I know it is because Arkansas was No. 2 or 3 on the list of States who had the most wetlands to be preserved and we did not make the cut. Only about 10 States are involved in that now as a pilot program.

Now, we did not put any additional money in that program this year, as you know, in 1993. But if we are going to put money in that for 1994, do you intend to continue it as a pilot program or are you going to go to all 50 States? If we are not going to go to all 50 States, I can tell you there ain't going to be any money out of this committee.

Secretary ESPY. Nationwide.

Senator BUMPERS. Pardon? You are my kind of Secretary.

Secretary ESPY. Nationwide, sir.

Senator BUMPERS. Well now, let me also say: Does the price of \$923 an acre seem a little excessive to you for this program? I have got a nice pastureland farm I would sure like to get in at that price.

Secretary ESPY. Senator, I would like to ask Steve to assist me on this one.

Senator BUMPERS. That is \$742 for easement—now, this is a 10-year program, but I mean you are effectively buying land. I know it is a permanent easement, but they can use it as long as they do not interfere with the uses that are prescribed in the easements. I mean, easements in my State—oh, I do not want to get into that.

But in any event, we are talking about \$742 an acre for the easement, \$52 for restoration cost share, \$134 for technical assistance, and \$4 for settlement and appraisal fees. That all comes to \$923 an acre. That is awfully expensive.

It seems to me that maybe you just picked out the most valuable wetlands in the area and are having to pay more for them. But when you just take a wetlands easement and paying what you can buy, I promise you—while this is an easement, you are paying \$923 for it—I promise you you can buy the best rice and cotton land in Arkansas for \$1,000 an acre. There is something seriously amiss there.

The Conservation Reserve Program, the cost of that program was about—well, actually we pay that on an annual basis, do we not? But does that not come over a 10-year period to close to \$500 an acre, does it not?

Mr. DEWHURST. Yes; actually, I think it is more than that. I am trying to calculate it in my mind.

OK, you are right. Yes, sir, about \$500, \$600 an acre.

Senator BUMPERS. Senator Bond I think raised the question a moment ago. We are paying all this money for the Conservation Reserve Program and when the farmer gets the land back he can do what he wants to with it, can he not?



Mr. DEWHURST. Yes, sir; but he will be subject to the conservation compliance requirements of the farm bill. If he puts the land back into production and he wants to remain eligible for USDA farm program benefits, he is going to have to farm according to a conservation plan developed by SCS.

Senator BUMPERS. At the expiration of the 10-year period?

Mr. DEWHURST. Yes, sir.

Senator BUMPERS. Well, are they very stringent? What are those requirements? You are talking about sodbuster and swampbuster?

Mr. DEWHURST. Yes, sir; including basic conservation compliance. If he wants to receive USDA farm program benefits, he has to have an approved conservation plan that protects his highly erodable land.

He would simply be subject to the same requirements every other participating farmer is subject to if he chooses to farm on that land.

Senator BUMPERS. I was going to say, he is not subject to any additional requirements than he would be if he had never been in the Conservation Reserve Program, though, is he?

Mr. DEWHURST. No.

Senator BUMPERS. Everybody has to comply with the swamp plan and sodbuster if they are going to get farm assistance, do they not?

Mr. DEWHURST. Yes, sir.

Senator BUMPERS. So he is no worse off than any other farmer and he has gotten 500 bucks or more for setting his land aside.

#### FOOD STAMP PROGRAM

Well, I will tell you something that is really alarming. Since October we are adding 200,000 people a month to the Food Stamp Program. If the unemployment rate is staying constant, as it seems to be, in the 7-, 7.1-percent area, how do you explain that? What is causing that?

Secretary ESPY. What is causing the increase in the Food Stamp Program?

Senator BUMPERS. Yes; 200,000 people a month. Ten percent of the people in this country now are drawing food stamps, and you know what the cost of that is. That is a big, big segment of this committee's budget; \$67.5 billion and a lot of that is food stamps, about \$27 billion.

Do you know?

Secretary ESPY. Senator, all I can say to you, sir, is that I will admit the fact that we are having that much of an increase simply because most Americans do not want to go into the program. They are proud. They want to be able to buy their food out of pocket and they do not want to receive this type of subsidy. But most people do not have any choice.

Senator BUMPERS. Your answer should be, Mr. Secretary, that if we pass the President's jobs bill we could start going the other direction.

Secretary ESPY. I did not know it was a tossup like that. Senator, I was getting around to it maybe in a way that is longer winded than necessary.

The fact is that we have people who are hurting. This recovery that we have been in is rather toothless and it is not accompanied

by a material increase in jobs, and people must eat. So that is why we now have the highest food stamp participation in recorded history.

Of our \$62 billion, it is an incredible amount of money out of the budget. It is a mandatory program and, due to the increase in program participation these people must be fed.

#### AQUACULTURE

Senator BUMPERS. Mr. Secretary, your State and my State are the two biggest States, and you are much bigger than we are, in the catfish raising business. But it seems to me that that is one place, even though over a period of time—on another subcommittee I was able to get this new state-of-the-art bench laboratory for Stuttgart, AR, in catfish farming, where we have raised production of catfish from roughly 600 pounds per acre over the last 30 years to 6,000 pounds per acre.

But I must say, there are other States that raise trout. But aquaculture is a very fast-growing industry in this country, and most people feel that the Department of Agriculture gives them pretty short shrift.

Do you think we ought to do anything to strengthen aquaculture in the Department of Agriculture?

Secretary ESPY. Senator, I have been there 3 months.

Senator BUMPERS. You want to beg off?

Secretary ESPY. And a lot of what you ask, perhaps it is out of frustration based on policies implemented by our predecessors. I can say to the Senator that I hail from the Mississippi Delta and I am proud of it, and that industry constitutes about a \$300 million boost to our economy. I have been there from basically the inception of the industry.

It is basically a 10-year-old industry and I have seen it grow, and I like what I see. I think that certainly catfish can be grown in other States and aquaculture is an industry that is ripe for transport to other areas. I will do everything within my power as USDA Secretary to see that we can improve and enhance and assist the aquaculture industry.

Senator BUMPERS. Mr. Secretary, I am not suggesting another bureaucracy in the Department and I am not sure that we need anything. That was just an honest open question.

Steve, do you want to comment on it?

Mr. DEWHURST. Mr. Chairman, I might just remark that for the first time in my memory we do have some money in the Cooperative State Research Service budget for aquaculture research. I have not been in the position for a long time of having money for that effort.

Senator BUMPERS. Senator Cochran, with your indulgence I have one final question. I will submit the rest of my questions in writing to the Secretary.

#### MARKET PROMOTION PROGRAM

One of the programs that continues to disturb me a little bit, particularly in light of the budget constraints and the fact that we are trying to find money everywhere we can find, we are trying to

streamline, cut, eliminate waste, and all that sort of thing, but let me ask you for your comments.

Are you familiar with the MPP program, the Market Promotion Program?

Secretary ESPY. Yes, sir; I am.

Senator BUMPERS. You have asked for \$140 million again in 1994 for that program. Do you think that is justified?

Secretary ESPY. Yes, sir; I do. I am aware of the abuses in the program and I do not think that those abuses can be tolerated. The abuses I am speaking of are related to branded industries.

Senator BUMPERS. Incidentally, that is another program that "Prime Time Live" or "60 Minutes" or some of those programs have sort of exposed.

Secretary ESPY. Yes, sir; I think, though, honestly, Senator, that it can be explained and even encouraged in the context of our competition. The desire here is to improve our market share and to develop new markets, and our European Community [EC] friends are zealous at subsidizing their products way beyond what we do and even in the value-added categories.

So that is why we froze the MPP at the present level. We did not propose an increase, but nor did we propose a decrease. I really hope, though, that the kick in the efficiency and effectiveness of the MPP can come in weeding out the abuse. But I think it is necessary. Until we get a good GATT agreement, I think we need to keep it there as a tool.

#### RUSSIAN FOOD ASSISTANCE

Senator BUMPERS. Do you realize the Russians, out of this \$700 million loan and credit program, they are saying they do not want any meat and poultry that has been exposed to pesticides and so on?

Secretary ESPY. I think we have taken care of that.

Senator BUMPERS. Have they agreed to an extension on that?

Secretary ESPY. Yes, sir; I believe so. Are you referring to the present FSIS export certificate of wholesomeness?

Senator BUMPERS. Pardon?

Secretary ESPY. The food safety issue? Yes, sir; they have agreed to an extension on our present FSIS export certificate.

Senator BUMPERS. Good.

#### NATIONAL ECONOMIC SUMMIT ON AGRICULTURE

Well, on a macro point, I want to make this point before I close out my part. I have talked to you about a national economic summit on agriculture similar to the one the President had in Little Rock. And the reason for that is not just to allow a carping session for farmers, but to address some really serious agricultural questions in this country.

Now, here we have a budget, and in my opinion agriculture, Senator Cochran, is being asked to take just about the biggest hit of anybody. Defense and agriculture are the two that are getting hit hard on this.

Now, the European Community, with whom we have to compete, has increased their subsidies by 100 percent since 1986. Since



1982–83, in that timeframe we have cut agriculture by two-thirds in this country. They subsidize wheat and cotton, for example, twice the level we do. And you watch “Prime Time Live” and some of those programs and you would think the farmers are trying to run off with the U.S. Treasury.

I am just simply saying when you have got an industry that contributes \$16 billion to the trade deficit—that is right, the trade balance would be \$16 billion higher if it were not for agriculture, and we are asking our farmers—and you know, I am trying to be a player. God knows, I am on the President’s team. I want to get spending down, I want to get the deficit under control, and I am going to help.

But when you consider that we are having to compete with somebody who is subsidizing their crops at twice the level we do, and yet we are still able to make a \$16 billion contribution to the trade deficit, but come back and say, well, we are going to cut you some more.

As you know, agriculture has taken a big hit in this budget. So I just want that on the record to show the disadvantage that agriculture is actually under under this budget, and trying to compete with the Europeans.

Secretary ESPY. Senator, you make the case very well and I really cannot dispute anything that you said, except to say to you, sir, that we should keep this all in context. Agriculture has had an incredible burden over the past few years, there is no doubt about that. That is why, in my opinion, the proposals currently are somewhat more sensitive to the agricultural position than in years past.

So I guess I offer the excuse of comparison. Second, sir, we realize that the cuts in farm programs that we envision will only come in 1996, from the 1996 crop year. So we are saying that many things will happen before that time. Hopefully, we will have a GATT agreement. Hopefully, that GATT agreement will encourage our EC competitors to substantially reduce their subsidies and equalize the playing field.

We hope that will happen. If that does not happen, then I certainly think that the left hand must react to what the right has not done and that we will come back and revisit these proposals.

Senator BUMPERS. Thank you, Mr. Secretary. I am going to turn you over to the tender mercies of the ranking member, Senator Cochran. He will ask you a few questions and then close the hearing. I am going to have to run to the floor.

#### FISCAL YEAR 1994 SUPPLEMENTAL APPROPRIATION

Senator COCHRAN [presiding]. Mr. Secretary, Senator Gorton from Washington brought up an issue which is one that I think is very important and we need to think about a little bit. It is in the context of the President’s proposed investment program that includes a request of this committee to provide funds in fiscal year 1994 through a supplemental appropriations bill for programs and activities under the Department of Agriculture’s jurisdiction of almost \$2 billion, but carries a general language provision that the funds cannot be spent until they are fully offset by savings through an enacted reconciliation bill.



Senator Gorton asked if the Department was going to submit an indication to the committee on what savings could be made or what requests for offsets we should consider. And as I understood the response that Mr. Dewhurst gave, there is not going to be any suggestion of offsets by the administration or the Department, that that is up to this committee.

That is almost fraudulent in my judgment. And I am not criticizing you. This is obviously a scheme that has been developed that affects not just this subcommittee, but the entire Federal Government, because the President's budget asks the Congress to appropriate investments which exceed the current law's legally binding outlay caps on discretionary spending by nearly \$18 billion in both fiscal years 1994 and 1995.

So the whole point is that in this budget for the next fiscal year, there are requests which ask appropriations subcommittees to appropriate money in excess of what they are authorized to do and Congress I suppose is to find its own offsetting savings in other programs. The administration does not make any suggestions about where those savings should be made to fund the investments proposed.

It is like pulling the pin out of a handgrenade and rolling it up here to us at this committee and walking out of the room, going outside, and saying: We have submitted a request for many more funds than this committee is able to provide unless they cut some other programs, but we are not going to be a part of the program cutting; we are just going to be a part of the add-ons, the so-called investment program of the President.

That is disturbing.

Secretary ESPY. Senator, could I get Mr. Dewhurst to respond to a bit of that?

Mr. DEWHURST. Senator, I think all I can tell you is what I know, which is a couple of things. One of course is that we are well aware that we have a budget here that has some investments in it and that the investments involve more money to some extent than the savings that are suggested in fiscal year 1994.

We assume that that matter is a matter of Governmentwide budget priorities and that the President's budget stands as a package Governmentwide.

The other thing is that this budget is an accurate reflection, of course, of the plan the President sent to the Congress February 17 and does not take into account any of the discussions that have taken place since that time. So we are not in the position to tell you that there are changes in the budget due to the budget resolution or debates about the stimulus package. Those things are all there, but they are not reflected in any of these numbers.

So without knowing the context, I cannot tell you what the Budget Director was really saying. All I can tell you is that the budget we have before you is the one we have been told to defend and it is part of a Governmentwide set of proposals.

#### RUSSIAN AID PACKAGE

Senator COCHRAN. The only final question that I will ask, then I will submit others on other subjects, has to do with the Russian aid package. I understand that 2 weeks ago we were notified by

Russia that it would not accept export certificates for any United States meat or poultry product that did not meet certain requirements, and as a result of that virtually all United States meat exports are not allowed to enter Russia.

Is this an accurate description of the notification that USDA received from Russia and, if so, do you think it will be possible to negotiate some kind of resolution of that problem so we could see meat exports going to Russia?

Secretary ESPY. Yes, sir; it is an accurate description of what happened 2 weeks ago, but it no longer is true. We have worked with them and they have agreed to waive that objection, and so now there is a free flow of products into Russia. We are undertaking to change our export certificates.

Senator COCHRAN. I appreciate that. In addition to that question, I have some other questions in connection with the Russian aid proposal, some relating to the matter you brought up, which was the expense of shipment and the problems that have come to light in the last few days on that issue.

Secretary ESPY. Yes, sir.

Senator COCHRAN. Another on the Food Safety and Inspection Service, trying to get at what the primary approved shift means and how much that is going to cost poultry processors if they have to pay this overtime that is being suggested in this budget; and another on the alternative agricultural research and commercialization program and what the outlook is for that.

I am also submitting questions on the Federal Crop Insurance Corporation and the Farmers Home housing rental assistance program, where we have a fiscal year 1993 funding shortfall, I am told, that needs our attention.

#### SUBMITTED QUESTIONS

The chairman has asked me to advise that additional questions will be submitted in writing by other Senators and we ask that you respond to them within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR BUMPERS

### · USDA REORGANIZATION

Question: Mr. Secretary, When you were confirmed, you expressed a commitment to reorganizing USDA but stated that your first priority was to reorganize in Washington at the headquarters before going into the field. Does this budget reflect that position?

Answer: My priority is still to reorganize the headquarters first although the budget does not reflect all of those plans. The budget does reflect the proposal to form the Farm Service Agency (FSA) at headquarters and in the field from consolidation of the Agricultural Stabilization and Conservation Service, the commodity price and income support programs funded by the Commodity Credit Corporation, the Soil Conservation Service and the Farmers Home Administration. Planning for the FSA is currently underway. Also, the budget does include a request to combine the appropriations for the various offices of the Secretary. This combination would provide me and future Secretaries with more flexibility in structuring and managing the top level staff.

Question: Do your reorganization plans assume more than the establishment of the Farm Service Agency? If so what are they?

Answer: I have not finalized my plans yet, but I am looking at the total headquarters structure and the field structure of all USDA agencies. Once a number of appointees for the Department are confirmed, I will enlist their assistance in designing a final plan.

Question: What is your timetable for this reorganization?

Answer: I expect to have a plan in place by fall for the headquarters reorganization.

Question: I understand a pilot program is now underway in a few select counties. What are the details of this pilot, how long will it last, and what have you learned?

Answer: I believe you may be referring to the Easy Access pilot projects initiated by former Secretary Madigan. As I understand, projects were set up in three counties to test the concept of USDA agencies working together and using new technology to provide better, more efficient services to producers served by these county offices. These projects in Sherman County, Kansas, Bolivar County, Mississippi, and Rockingham County, Virginia are now being expanded under the

new Info Share Program to test the systems being designed for the Farm Service Agency. Info Share is a partnership among the farm service agencies, the Departmental Offices of Information Resources Management and Operations to coordinate the development, acquisition, implementation and management of information resources which support farm service and rural development missions. We want to better serve our customers through this project.

Question: Will you consult fully with Congress and the Appropriations Committee before instituting any reorganization?

Answer: I will consult with Congress before I make major changes in the Department. I will need your support if changes are to be made.

#### MEAT AND POULTRY INSPECTION SYSTEM

Question: Mr. Secretary, following the food-borne disease outbreak in the Northwest, you stated that improvements must be made in the way we inspect meat and poultry for harmful bacteria and pathogens. You outlined a number of short-term measures, including the hiring of additional meat inspectors, and moving forward on developing a new inspection system. How are you progressing on developing a new inspection system?

Answer: We are now developing a strategic plan which will be submitted for public comment before being put in final form. I have recently announced a pathogen reduction program which we have designed to ensure that we begin immediately reducing the likelihood of further outbreaks. An increase of \$8 million has been included in the 1994 budget request for this effort.

Question: What specific steps could you share with this subcommittee?

Answer: We are using a two pronged attack to deal with modernizing the present inspection system. We are strengthening our present program to make it as effective as is possible with current methods and technology. We will also be seeking public input through regional hearings that will be held throughout the country this year. The Department is now in the process of developing a future inspection system, based on Hazard Analysis and Critical Control Point (HACCP) principles and essential elements of a pathogen reduction program. These activities will include examination of pre-harvest meat and poultry production, research on methods for rapid detection of pathogens, post harvest research on handling of product in slaughter plants, processing plants, and food service operations, and increased consumer education.

Question: Funding for the hiring of additional inspectors was included in the President's stimulus package. What would be the impact on your efforts without this funding?

Answer: Without the \$4 million, the Department will be unable to maintain an increased level of inspection in meat and poultry plants. The 160 inspectors which would have been funded by the \$4 million were to be a significant step in fully staffing this program and permit in-plant inspectors to perform all their assigned responsibilities. Under staffing results in certain inspection tasks not being completed. This increases the threat of product contamination due to improper handling or processing procedures.

#### WETLANDS RESERVE PROGRAM

Question: Mr. Secretary, the report on the Wetlands Reserve pilot program indicates that the cost per acre is \$923. The per acre costs include \$742 for the easement, \$52 for restoration cost-share, \$134 for technical assistance and administrative costs, and \$4 for settlement and appraisal fees.



Does this amount of money seem high to you for the per acre costs of the program?

Answer: The \$923 rate per acre is based on a pilot program of selected States. However, the \$742/acre easement payment rate is not substantially different than the national average per acre value of nonirrigated cropland which was \$678/acre in 1990. Much of the eligible wetland acreage is highly productive when properly drained and cropped.

The technical assistance rate of \$124 per acre is substantially higher than that provided under other programs. However, this program is more complex than other programs and this amount only reflects the average amount paid for the 49.9 thousand acres approved. In order to provide landowners with thorough details about easement obligations, property rights and other costs before they bid, SCS developed very intensive wetland restoration plans for all acreage that landowners expressed an interest in bidding into the program. Since bids were received on 249,059 acres, this amounts to about five times as much acreage as was accepted into the program.

The \$52 per acre restoration cost, even though it reflects a 75% cost-share level which is much higher than CRP's 50%, is also low because many of the wetland restoration practices will require exacting agronomic and structural measures that we had anticipated would cost substantially more.

Question: Are there any assurances that we are not paying more than the market value of the land for the easements? If so, what are they, and are they in law, by regulation, or otherwise?

Answer: The WRP bid selection process is designed to ensure that USDA meets the requirements of the Food, Agriculture, Conservation, and Trade Act of 1990 (1990 FACT Act) which mandates that WRP payment rates do not exceed the fair market value of the land less the fair market value of the land encumbered by the easement. To accomplish this, USDA calculates a unique bid cap for each bid based on fair market value data and other information. The exact bid cap formula and variables used have not been released to the public to help ensure that USDA pays "the minimum amount the landowner is willing to accept, rather than the maximum amount the Department is willing to pay". The bid cap formula will be reviewed periodically to ensure bids accepted meet guidelines set by ASCS.

Question: Isn't it true that with the Conservation Reserve Program, the costs per acre increased as more and more acres were entered because the value of the land increased? Do you expect a similar pattern to occur with the Wetlands Reserve Program? Why or why not?

Answer: The cost per acre of the CRP remained generally constant until 1990 when the geographic mix of acres enrolled shifted heavily into the Corn Belt and Eastern States where rents are higher. This change took place in part because the CRP expanded its criteria for selecting lands in order to enroll acres yielding the greatest environmental benefit per Federal dollar spent. In contrast, the WRP has adopted a similar targeting formula from its inception. Therefore, the per acre payment rates that would be anticipated for future WRP enrollment are not expected to be significantly higher or lower than that for the first sign-up. WRP costs would be reflective of price fluctuation in the land market.

## FOOD STAMP PROGRAM

Question: The committee has noted the increasing participation levels for the food stamp program in recent years, from 22.6 million in fiscal year 1991 to a record 26.8 million in January of this year. More than one in every ten Americans is a recipient of food stamps, and the number of participants has been growing by about 200,000 a month since October. Why do you think we are seeing such rapid growth in this program?

Answer: The primary factor behind the increase in participation since 1991 has been the economic recession and the increases in unemployment and underemployment that it has caused. Additional factors contributing to the increase include the raising of Medicaid income eligibility standards; an increase in the number of legalized immigrants eligible for the program; and additional governmental efforts in the areas of outreach and of simplification and consistency of application procedures among all welfare programs.

Question: What impact would the President's stimulus program have on this program?

Answer: No specific analysis has been done to estimate the impact of the President's stimulus program on food stamp participation. To the extent that jobs created through the stimulus program are filled by current or potential food stamp participants, the stimulus program would reduce food stamp participation and costs. The multiplier effect, that is the indirect effect on the communities of newly employed persons spending more money in their communities would also tend to increase employment and incomes and reduce program participation.

Question: Are the estimates in your budget request for fiscal years 1993 and 1994 based upon an assumption that the President's plan would be enacted?

Answer: Since we are into the second half of 1993, no significant changes in food stamp participation and costs are anticipated to result from congressional action on the President's plan. Participation and cost estimates for 1994 are influenced by economic assumptions developed by the Office of Management and Budget including forecasts of unemployment and changes in the cost of food. These assumptions encompass all aspects of the President's program along with factors not directly influenced by government policy, so it would be difficult to separately identify the impact of the President's stimulus program on 1994 food stamp participation and costs.

Question: Do you think the benefit reserve is sufficient to cover the increased participation, or do you expect to request a supplemental appropriation?

Answer: Since our current economic forecasts assume a slight drop in participation and a modest two percent increase in food costs, the benefit reserve of \$5 billion should be sufficient to cover any unforeseen changes in economic conditions affecting participation and costs.

## MARKET PROMOTION PROGRAM

Question: Mr. Secretary, last year we asked for a report on the Market Promotion Program evaluating it over the last five years. That report has not been received yet even though it was due February 1, 1993. You are familiar with the controversy surrounding MPP. What are your thoughts on this program?

Answer: The Market Promotion Program -- MPP -- is an innovative approach to promoting U.S. agricultural commodities and products overseas. It can be particularly effective for promoting value-added products, which have received approximately 80 percent of total MPP funding. At the same time, however, it is critical that the program be administered and carried out effectively and efficiently. I am very aware of the negative publicity which has recently surrounded the program, and we will be reviewing the program to determine what changes may be needed to improve its effectiveness.

Question: When will the report be received?

Answer: Various options were considered to comply with this request, and the decision was made for the Department to conduct a survey of the non-profit participants and private firms participating in the MPP. The Foreign Agricultural Service, which will be conducting the survey, will need to clear the survey with the Office of Management and Budget as it is subject to the provisions of the Paperwork Reduction Act. Once the survey is cleared and sent out, it will take some time to receive, compile, and assess the results. While FAS had originally expected to be able to respond to the Committee's request this summer, it now appears that additional time may be required.

## ASCS SALARIES AND EXPENSES

Question: It has come to my attention that a shortfall in the operating budget for ASCS could result in a furlough of as many as 500 employees for as many as six weeks.

Is this true? If so, what is the reason for the shortfall given that we provided the same amount of funds that were requested for this year?

Answer: No. It is not true that ASCS will be furloughing 500 employees for as many as six weeks. However, it is true that ASCS is operating with less appropriated funding for administrative expenses in FY 1993 compared to FY 1992. As a result, many States are having to monitor more closely their spending in order to keep within their administrative allocations. Moreover, the tight funding situation for ASCS is the result of no additional appropriations provided for performing workload related to Phase II and III of the disaster program.

Currently, ASCS is in the process of thoroughly analyzing the available funding resources, existing and projected workload needs, and estimated expenditures through the fiscal year. Based on preliminary analysis results which include a summary of State reports on expenditure needs, it appears that there is sufficient funding in reserve at the national level to support agency operations. This assumes that all ASCS offices will continue monitoring more closely expenditures and use sound judgement when incurring costs. As a result, ASCS anticipates issuing allocation adjustments to States which have justified the need.

However, ASCS is able to keep within the overall funding availability only by postponing non-essential workload, reducing the use of temporary employees, reducing travel and all other expenditures which can be postponed.

Question: Will you request a supplemental appropriation?

Answer: As a result of the actions taken by the agency to maximize the use of available funding resources, no supplemental appropriation will be requested for FY 1993.

#### RURAL ELECTRIFICATION ADMINISTRATION

Question: You propose to significantly change the rural electrification program which, as you know, is being resisted by the rural electric and telephone borrowers. I know that these borrowers are very interested in participating in rural development in more than just providing electric and telephone service.

What rural development roles do you foresee for these groups and how do you intend to achieve them?

Answer: Mr. Chairman, the only change proposed for the electric and telephone programs in the FY 1994 budget is the increase in the interest rate for direct loans and the Administration does not consider this a significant change. The interest rate will increase from 5 percent to the Treasury cost of borrowing which is presently 6.75 percent.

Regarding the borrower's role in rural development activities, we foresee that the borrowers will increase their activities in financing economic and community efforts. The borrowers have been increasingly active in the past few years in their participation in the zero interest economic development loan program available through REA. During 1992 REA made 96 of these loans totaling \$8.4 million to borrowers in 24 states. The 96 loans were made for the purposes of financing business startup and expansion and community economic development projects. Although the average size of these loans is relatively small, \$87,500 in 1992, one of REA's criteria in making the loans is the amount of funds leveraged from other sources. The 1992 loans were supplemented with funds from a variety of sources including private financial institutions, state and local governments, regional development organizations, other Federal agencies, REA borrowers and owner equity. We expect this activity to increase now that REA has increased the maximum loan amount from \$100,000 to \$400,000.

We also anticipate that borrowers will begin to use more of their own capital in financing economic and community projects. As you know, REA borrowers are permitted to use up to 15% of their total plant value to invest in such endeavors without REA's permission. Some borrowers have taken advantage of this authority and we anticipate more will do so in the future. In addition, the FACT Act of 1990 authorized the deferment of principal and interest payments on REA loans to encourage investment in rural development activities. REA estimates that a total of \$36 million could be deferred in 1993. Deferred payments must be repaid over 5 to ten years depending on the nature of the investment. The final regulations implementing this program were published on April 23, 1993.



## RUSSIAN AID

Question: I understand that under the \$1.6 billion in Russian aid announced recently by the President, the transportation costs of the Food for Progress portion cannot be covered because of a limitation on the use of Commodity Credit Corporation funds for this purpose. I further understand that the Administration has been pursuing other possibilities for covering these transportation costs. What is the current status of this dilemma? How will the transportation costs be covered?

Answer: We are actively exploring various options and authorities available to the Department to pay for the transportation costs associated with the Food for Progress credit program for Russia which President Clinton announced during the Vancouver Summit. We hope that in the very near future we will be able to advise you how we intend to resolve this issue. Our preference is to identify an administrative solution to the problem, rather than seek a legislative remedy.

Question: Please provide a summary of USDA's share of the Russian aid package -- what programs will be used and to what extent.

Answer: The Department's portion of the total \$1.6 billion package is \$894 million. This includes the \$700 million Food for Progress credit program and another \$194 million of food donations. The donations will be carried out through programs of U.S. private voluntary organizations or bilateral agreements with the Russian Government. The donated commodities will be made available under the authorities of Food for Progress and section 416(b) of the Agricultural Act of 1949.

Question: Also, provide information by type and amount showing total Russian aid for 1992 and to date for 1993.

Answer: We will provide tables which provide information of food assistance programmed in 1992 and planned for 1993 for Russia, including the types of commodities, dollar values, and tonnages.

[The information follows.]

PROGRAMMED U.S. FOOD AID, FY 1992  
Commodity Value and Metric Tons  
RUSSIA BY COMMODITY  
FINAL

COUNTRY	COMMODITY	PUBLIC LAW 480						SECTION 416(b)						FOOD FOR PROGRESS						COUNTRY BY COMMODITY TOTALS	
		Table I		Table II		Table III		Regular 416		World Food Program		Table I		Section 416		CCC Purchases					
		000 \$		000 MT		000 \$		000 MT		000 \$		000 MT		000 \$		000 MT		000 \$			
		000 MT	000 \$	000 MT	000 \$	000 MT	000 \$	000 MT	000 \$	000 MT	000 \$	000 MT	000 \$	000 MT	000 \$	000 MT	000 \$	000 MT	000 \$	000 MT	
Russia	Beans	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	5.1	3,057.0	5.1	3,057.0	
Russia	Butter	--	--	--	--	--	--	21.0	30,009.0	--	--	--	--	--	--	--	--	21.0	30,009.0	21.0	30,009.0
Russia	Butteroil	--	--	--	--	--	--	4.6	8,110.0	--	--	--	--	--	--	--	--	4.6	8,110.0	4.6	8,110.0
Russia	Evaporated Milk	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	0.7	372.3	0.7	372.3	
Russia	Infant Formula	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	1.0	4,500.0	1.0	4,500.0	
Russia	NFDM	--	--	--	--	--	--	13.8	23,400.3	--	--	--	--	--	--	--	--	13.8	23,400.3	13.8	23,400.3
Russia	Peanut	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	4.5	1,473.9	4.5	1,473.9	
Russia	Rice	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	19.4	7,164.1	19.4	7,164.1	
Russia	S. F. Sugar	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	2.7	544.0	2.7	544.0	
Russia	Vegetable Oil	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	4.6	3,628.6	4.6	3,628.6	
Russia	Wheat Flour	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	23.5	3,355.0	23.5	3,355.0	
Total for FY 1992		--	--	--	--	--	--	39.4	61,918.5	--	--	--	--	--	--	--	81.5	28,286.9	81.5	28,286.9	

PLANNED U.S. FOOD AID FOR FY 1993  
Commodity Value and Metric Tons  
RUSSIA BY COMMODITY

COUNTRY	PUBLIC LAW 480				SECTION 416 (b)				FOOD FOR PROGRESS				COUNTRY BY COMMODITY TOTALS	
	Title I		Title II		Title III		Regular 416		World Food Program		Title I		CCC Purchase	
	000 MT	000 \$	000 MT	000 \$	000 MT	000 \$	000 MT	000 \$	000 MT	000 \$	000 MT	000 \$	000 MT	000 \$
Russia	--	--	--	--	--	--	--	--	--	--	--	--	0.3	832.0
Russia	--	--	--	--	--	--	--	--	--	--	--	--	0.3	18,000.0
Russia	--	--	--	--	--	--	--	--	--	--	--	--	0.8	324.3
Russia	--	--	--	--	--	--	38.7	51,438.0	--	--	--	--	0.8	51,438.0
Russia	--	--	--	--	--	--	20.5	35,022.9	--	--	--	--	20.5	35,022.9
Russia	--	--	--	--	--	--	--	--	--	--	--	--	10.3	7,882.6
Russia	--	--	--	--	--	--	210.0	20,160.0	--	--	--	--	10.3	7,882.6
Russia	--	--	--	--	--	--	123.0	16,123.0	--	--	--	--	10.3	7,882.6
Russia	--	--	--	--	--	--	--	--	--	--	--	--	300.0	26,002.1
Russia	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Russia	--	--	--	--	--	--	--	--	--	--	--	--	1.3	8,080.3
Russia	--	--	--	--	--	--	--	--	--	--	--	--	1.3	8,080.3
Russia	--	--	--	--	--	--	--	--	--	--	--	--	1.8	684.4
Russia	--	--	--	--	--	--	--	--	--	--	--	--	0.7	1,845.8
Russia	--	--	--	--	--	--	--	--	--	--	--	--	0.3	1,000.1
Russia	--	--	--	--	--	--	--	--	--	--	--	--	4.3	3,000.0
Russia	--	--	--	--	--	--	--	--	--	--	--	--	14.3	20,000.0
Russia	--	--	--	--	--	--	--	--	--	--	--	--	80.7	24,002.0
Russia	--	--	--	--	--	--	--	--	--	--	--	--	2.6	454.4
Russia	--	--	--	--	--	--	--	--	--	--	--	--	8.2	8,136.0
Russia	--	--	--	--	--	--	--	--	--	--	--	--	320.0	78,000.0
Russia	--	--	--	--	--	--	--	--	--	--	--	--	3.4	898.0
Russia	--	--	--	--	--	--	--	--	--	--	--	--	4.4	13,231.0
Total for FY 1993 ...														
382.2 128,438.9														
898.0 21,483.0														
138.4 500,184.3														

Source: USDA/FAS/EC/PAD-4-79-93

Question: In 1991, we made \$1,750,000,000 available for disaster payments to farmers for crop years 1990, 1991, and 1992. The first \$995,000,000 was made available immediately for 1990 and 1991 crop losses and the remainder was made subject to a presidential request and emergency designation. Last year, we made an additional \$482,000,000 available of which \$100,000,000 was not available until requested by the President and declared emergency funding. What is the current status of these funds?

Answer: As you indicated, the first disaster supplemental last year authorized a total of \$1.75 billion for disaster payments on crop losses in 1990, 1991, and 1992 under terms and conditions specified in the Food, Agriculture, Conservation, and Trade Act of 1990.

Of the total, \$995 million was made available early in 1992 for losses in either 1990 or 1991. Claims totaled about \$2 billion, and payments for 1990 and 1991 losses in Phase I of the disaster program were based on a prorate factor of 50.04 percent. The additional \$755 million was made available upon request by the President on September 2, 1992. Of the \$755 million, \$100 million was set aside for payments under Phase II of the program to producers with losses on program crops planted in 1991 for harvest in 1992. The remaining \$655 million was made available under Phase III of the program to producers with unclaimed losses in either 1990, 1991, or 1992.

Following Hurricane Andrew, the second disaster supplemental of 1992 authorized an additional \$482 million for Phase III of the program. Of the \$482 million, \$100 million was made available only upon request by the President. The supplemental also authorized additional borrowing if needed to pay producers for losses at the same prorate factor used in Phase I of the program.

In summary, the first and second disaster supplementals made available a total of \$2,132 million for payments on crops losses in 1990, 1991, and 1992. After adjustment for a transfer of about \$11 million to FmHA for migrant labor housing, funds available for disaster payments totaled \$2,121 million.

To date, payments at the 50.04 percent factor total about \$1,616 million, including \$963 million for Phase I, \$97 million for Phase II, and \$556 million for Phase III. An additional \$60 million in payments on Phase III applications already on hand is expected. Current funding for Phases I, II, and III totals \$2,121 million. Thus, a total of about \$445 million would remain for payments at the 50.04 percent factor after processing applications on hand.

On April 9, 1993 we announced that producers could apply for quality losses on the 1992 corn crop. The application period for payments on corn quality losses closes May 7, 1993. ASCS has estimated these additional payments at the 50.04 percent factor could total about \$150 million. Payments of \$150 million on quality losses would reduce the estimate of remaining funds from \$445 million to \$295 million.

Question: Will you be releasing the extra \$100,000,000?

Answer: A decision on a request for the additional \$100 million, which is not included in the Budget, will be made at a later date.



Question: What is your current estimate of the amount you will be able to pay farmers on each dollar for which he is eligible?

Answer: We will not be able to announce a change in the final pro rate factor, if any, until after the application period for corn quality losses closes and processing of claims is completed. We would estimate, based on anticipated claims, that the additional payment would be less than 10 percent of the initial claim.

Question: Should there be funds left over, will you go back and pay a larger pro rate share to each eligible farmer?

Answer: We would expect to be able to pay a larger pro rate share if the funds remaining allow for more than a negligible supplemental payment. As indicated earlier, we would estimate, based on anticipated claims, that supplemental payments, if any, would amount to less than 10 percent of the initial claim.

Question: Please provide a report on the disposition of these funds showing geographical distribution, the crop years for which the payments are made, and the type of crops and disasters involved. If the final information is not currently available, please provide an interim report showing the disposition and distribution of funds.

Answer: An interim report showing distribution of payments by state for Phase I, II, and III follows:

Status of Disaster Funds  
As of September 30, 1992

Phase I	
State	Crop Disaster Cumulative Activity Net Expenditures
Alabama	\$25,092,203 00
Alaska	234,559.00
Arizona	2,766,304.00
Arkansas	29,368,043 51
California	54,956,176 41
Colorado	9,874,441.00
Connecticut	942,177 00
Delaware	279,462 00
Florida	23,981,513 00
Georgia	64,490,146 00
Guam	238,155 00
Hawaii	536,436 00
Idaho	12,667,242 00
Illinois	42,712,200 00
Indiana	22,819,569 00
Iowa	31,128,479 00
Kansas	28,756,553 00
Kentucky	6,136,673 00
Louisiana	44,044,239 00
Maine	2,640,817 00
Maryland	2,440,002 00
Massachusetts	3,224,714 00
Michigan	23,158,798 00
Minnesota	27,729,430 11
Mississippi	26,962,698 00
Missouri	25,341,172 00
Montana	18,268,768 00
Nebraska	17,207,270 00
Nevada	2,067,212 00
New Hampshire	246,947 00
New Jersey	7,555,137 00
New Mexico	6,761,113 00
New York	6,551,728 00
North Carolina	14,255,599 00
North Dakota	32,128,319 00
Ohio	16,090,728 00
Oklahoma	22,988,700 00
Oregon	10,039,276 00
Pennsylvania	12,857,248 00
Puerto Rico	1,407,043 00
Rhode Island	108,155 00
South Carolina	13,795,828 71
South Dakota	21,146,569 00
Tennessee	17,034,537 00
Texas	145,526,538 00
Utah	4,318,793 00
Vermont	667,493 00
Virginia	5,183,778 15
Washington	24,692,678 00
West Virginia	1,526,437 00
Wisconsin	9,221,432 00
Wyoming	1,267,414 00
American Samoa	499,095 00
N. Mariana Is	190,678 00
Undistributed	36,415,469 17
Total Funds Expended	\$962,542,185 06

Source: BU-541R Report

**Status of Disaster Funds  
As of April 21, 1993**

Phase II					
Funds Available			\$100,000,000		
Crop Disaster Weekly Activity			Crop Disaster Cumulative Activity		
-	Disbursement	Refund	Disbursement	Refund	Net Expenditures
Alabama	\$0.00	\$0.00	\$69,939.00	\$553.00	
Arizona	0.00	0.00	8,541.00	0.00	
Arkansas	1,362.00	4,016.00	2,486,962.00	6,388.00	
California	(4,460.00)	0.00	596,345.00	9,172.00	
Colorado	11,524.00	23,196.00	5,439,695.00	38,768.00	
Delaware	0.00	0.00	67.00	0.00	
Florida	0.00	0.00	3,270.00	0.00	
Georgia	575.00	0.00	85,144.00	0.00	
Idaho	0.00	0.00	902,201.00	3,454.00	
Illinois	505.00	0.00	4,565,579.00	2,652.00	
Indiana	0.00	0.00	3,456,258.00	14,232.00	
Iowa	(305.00)	0.00	112,303.00	88.00	
Kansas	16,493.00	275.00	24,436,853.00	98,724.00	
Kentucky	0.00	0.00	18,985.00	0.00	
Louisiana	0.00	0.00	442,916.00	0.00	
Maryland	0.00	0.00	1,762.00	0.00	
Michigan	3,565.00	263.00	267,554.00	4,751.00	
Minnesota	0.00	0.00	31,559.00	169.00	
Mississippi	136.00	0.00	206,503.00	0.00	
Missouri	195.00	0.00	1,860,237.00	5,013.00	
Montana	32,594.00	152.00	10,660,288.00	19,959.00	
Nebraska	0.00	0.00	10,679,801.00	6,895.00	
Nevada	0.00	0.00	229,182.00	80,903.00	
New Mexico	0.00	0.00	479,772.00	1,306.00	
New York	0.00	0.00	27,863.00	85.00	
North Carolina	0.00	0.00	18,966.00	37.00	
North Dakota	0.00	0.00	24,727.00	0.00	
Ohio	1,163.00	0.00	1,297,449.00	3,818.00	
Oklahoma	35,440.00	37.00	7,320,282.00	9,734.00	
Oregon	0.00	0.00	1,366,488.00	984.00	
Pennsylvania	0.00	0.00	3,908.00	0.00	
South Carolina	0.00	0.00	31,899.00	266.00	
South Dakota	0.00	2,407.40	5,926,488.00	6,432.40	
Tennessee	0.00	0.00	168,664.00	24.00	
Texas	354.00	200.00	8,873,203.00	13,835.00	
Utah	0.00	0.00	285,718.00	0.00	
Virginia	0.00	0.00	10,077.00	0.00	
Washington	0.00	0.00	2,638,203.00	6,743.00	
West Virginia	0.00	0.00	1,060.00	0.00	
Wisconsin	387.00	0.00	1,576,433.00	8,256.00	
Wyoming	0.00	0.00	427,515.00	367.00	
Totals	\$99,528.00	\$30,546.40	\$97,040,659.00	\$343,606.40	\$96,697,052.60
Phase II Balance					\$3,302,947







## CURRENT DISASTERS

Question: Mr. Secretary, disasters have already occurred this year. We have had flooding, tornadoes, and other storms. I understand that there is currently no disaster assistance available for this year's crops? Is that correct?

Answer: Disaster assistance remains available to producers of 1993 crops from a variety of USDA programs, including emergency conservation and livestock programs of the Agricultural Stabilization and Conservation Service, emergency lending programs of the Farmers Home Administration, and indemnity payments for crops covered by insurance from the Federal Crop Insurance Corporation. However, funding provided last year by the dire emergency supplemental appropriations is available only for losses on 1990, 1991, or 1992 crops.

Question: What about disaster assistance for other than crops? Do you have sufficient funds in the Emergency Watershed Program (EWP) and the Emergency Conservation Program (ECP) to meet the need?

Answer: An unusual demand was placed on the EWP and ECP as a result of Hurricanes Andrew and Iniki and Typhoon Omar. The need for funds to provide emergency assistance to repair damage caused by these natural disasters was far greater than was initially made available. In response, a supplemental appropriation was signed on September 23, 1992 which provided \$62 million for the EWP and \$27 million for the ECP. But, even with the supplemental funds, the funding is far short of what is needed to satisfy all of the requests for assistance.

Question: If not, how much money is estimated to be required for the remainder of 1993?

Answer: Current estimates indicate a need for an additional \$3.6 million for the EWP, and an additional \$31.4 million for the ECP to fund all requests for assistance resulting from damage caused by the hurricanes and typhoons in 1992. Also, funds available for the regular ECP are critically short, and based on current estimates an additional \$8 million is likely to be needed if the level of disasters in 1993 is close to the average level experienced in recent years. Therefore, we estimate that a total of \$39.4 million will be needed in additional funds for FY 1993 to address all requests to repair damage caused by natural disasters.

## RURAL DEVELOPMENT ADMINISTRATION

Question: It is my understanding that currently many states have no state contact for Rural Development Administration programs. Rather, there are regional directors. Some Members of Congress find this disconcerting not to be able to deal with someone in their state for these programs.

What is the current situation in terms of state RDA contacts?

Answer: Mr. Chairman, the current situation is very confusing for all involved in these programs and the confusion is a result of factors not controllable by RDA. First, let me state that Members of Congress and State officials should continue to contact the Farmers Home Administration (FmHA) State Office regarding RDA programs. There are personnel within the State Offices familiar with these programs. These are the same FmHA personnel that administered the

programs prior to RDA and they are continuing to perform these functions.

Question: What are the plans for establishing an RDA state presence in every state and what will be the cost?

Answer: RDA had planned to establish area offices in each state and one of these offices was to have been located at or near the State Capitol. The personnel in these offices would have had the responsibility of working with State officials and others regarding RDA programs. However, the FY 1992 Appropriations Act did not provide funds to open these offices and the Conference Report recommended that RDA not open the offices until the Department-wide reorganization plans were complete. Plans to open the Area Offices are still on hold and in the interim RDA will continue to administer its programs with the assistance of FmHA State, and district offices.

Question: Regarding the cost of opening these offices, RDA had planned to collocate these offices with FmHA or other USDA field offices which would have meant, in many cases, a simple transfer of office space, equipment and personnel. This would have resulted in very minor costs and RDA was planning to accomplish the transfers within existing resources.

How does this fit in with restructuring the field offices and forming the Farm Service Agency?

Answer: There is no doubt that the plans for restructuring the Department, including the field office structure, will have an impact on RDA's plans to complete its field structure. As you know, we have not yet completed planning for the Farm Service Agency, but I assure you and other Members of Congress that our intent in the reorganization is to make the entire organization user friendly, as well as a more efficient vehicle for delivering program assistance.

## RENTAL ASSISTANCE

Question: It has come to my attention that the rental assistance funds are insufficient for renewing existing contracts not to mention servicing any additional units.

How much funding will be needed in 1993 to renew all existing contracts?

Answer: Current estimates show that an additional \$68 million is needed in 1993 to renew existing rental assistance contracts. A shortfall of \$68 million equates to about 5,500 families currently receiving rental assistance losing this assistance. Without this level of assistance FmHA estimates that 200 Rural Rental Housing projects will be placed in financial jeopardy and could face default on FmHA loans.

Question: How much funding will be needed to meet servicing requirements?

Answer: FmHA estimates \$7 million is needed to meet emergency servicing needs for financially marginal 515 projects involving about 560 units. FmHA has also received requests from its field offices for about 5,900 additional rental assistance units to address essential servicing needs. \$73 million would be needed to fund all these requests.

Question: Is it true that in some cases we are building new units when there are vacancies in existing 515 units? If so, should something be done about that and what do you propose?

Answer: Mr. Chairman, FmHA is continuing to build new units and there are projects with vacant units. However, the construction of new units in the same community or area in which there is a significant number of vacant 515 units will not incur. As part of the application process, FmHA requires the completion of a professional market survey to ensure sufficient demand for the project.

The vacancy rate for all 515 units in the Nation in 1992 was 6.1 percent. In most rental markets this is a very acceptable vacancy rate and usually is indicative of the need for additional rental units. In addition, vacancies in many situations are due, in part, to the lack of rental assistance. Families that meet the eligibility criteria for occupying a 515 unit, in many cases cannot afford the unit without rental assistance and are placed in the position of having to wait for a rental assistance unit to become available. At present, there does not appear to be a problem with the construction of new units while there are vacancies in existing projects.

Question: Please provide information on the rental assistance cost per unit for new construction, renewing existing contracts, and servicing. Also show the existing demand for each of these categories, what is estimated for 1994 in terms of demand, and how much of that demand your budget will cover.

Answer: I will be happy to provide that information for the record.

[The information follows.]

FY1994 Estimate of Demand and Cost

<u>Purpose</u>	<u>Units Required</u>	<u>Cost per Unit</u>	<u>Total Cost</u> (\$000)
Renewals	22,870	12,617	\$288,550
New Construction	11,380	11,529	131,201
Servicing	5,000	12,617	63,085
Debt Forgiveness	<u>925</u>	12,119	<u>11,206</u>
Total	38,161		\$494,042

FY 1994 Budget Request

<u>Purpose</u>	<u>Units Requested</u>	<u>Cost per Unit</u>	<u>Total Cost</u> (\$000)
Renewals, New Construction, and Servicing	33,811	12,301	415,837
Debt Forgiveness	<u>487</u>	12,115	<u>5,900</u>
Total	34,298		\$421,837 <sup>1/</sup>

<sup>1/</sup> This difference of \$74 million could be met through use of the funds requested in the proposed voucher program.



## TRADE

Question: Farmers are being told constantly that prosperity in agriculture is directly tied to trade opportunities. However, regardless of ongoing negotiations at GATT and debate over NAFTA, American farmers are still faced with the reality of European soybean subsidy problems, Canadian pork policies, and resistance by the Japanese to open their rice markets. In addition, there are countless other trade glitches such as the CARICOM duty I raised at last year's hearing and intend to raise again when the Under Secretary for International Affairs and Commodity Programs comes before this committee. In fact, Mr. Secretary, you have recently received a letter from me and others on this specific problem. Could you please provide me some insight into your view of the role of U.S. agriculture in world trade and the prospects for farm income that might result?

Answer: U.S. agriculture is the world's leader in providing high-quality products at competitive prices. However, trade barriers, including the ones mentioned in your question, are widespread and represent the greatest constraint to our exporters reaching their full potential in global trade. Therefore, we feel that American farmers stand to gain much from trade reforms proposed through NAFTA and the Uruguay Round of multilateral trade negotiations.

The agreements would greatly improve foreign market access for U.S. agricultural products by ending or reducing tariff and nontariff barriers and other trade distorting practices. USDA analysts have estimated that, once a Uruguay Round agreement is fully implemented, annual export gains would be about \$4 billion and farm income would be about \$1 billion larger. Exports under NAFTA, once the agreement is fully implemented, are estimated to be \$2 billion to \$2.5 billion higher than would otherwise be the case. We will continue to seek trade liberalization through these and other negotiations to achieve greater overseas market opportunities for our farmers and ranchers.

## SOAP and COAP

Question: Please provide a summary of activity for the SOAP and COAP activities for fiscal years 1991, 1992, and to date for 1993. For each commodity, and by country, provide the volume of exports, the value, as well as the cost.

Answer: We will provide that information for the record.

[The information follows.]

## Sunflowerseed Assistance Program (SOAP)

Fiscal Year/Country	Quantity (MT)	Sales Value a/ (Mil.\$)	Bonus Value b/ (Mil.\$)
<u>FY 1991</u>			
Algeria	48,000	NA	6.1
Egypt	<u>33,000</u>	NA	<u>4.1</u>
Total	81,000		10.2

FY 1992

Algeria	100,000	48.8	8.2
Egypt	25,000	11.0	2.4
Former Soviet Union	55,000	26.4	5.3
Mexico	58,760	26.0	5.0
Total	238,760	112.2	20.9

FY 1993

(As of April 1993)

Algeria	36,000	17.0	5.3
Guatemala	17,850	8.1	2.8
Mexico	94,920	42.8	12.1
Venezuela	10,000	4.5	1.5
Total	158,770	72.4	21.7

- a/ Sales value may include shipping costs depending upon export pricing arrangement (e.g., C&F, CIF or other terms)
- b/ Total bonus values are exclusive of allowed shipping tolerances.

## Cottonseed Assistance Program (COAP)

Fiscal Year/Country	Quantity (MT)	Sales Value a/ (Mil.\$)	Bonus Value b/ (Mil.\$)
<u>FY 1991</u>			
Egypt	28,000	NA	4.4
Turkey	4,000	NA	.5
Venezuela	3,500	NA	.3
Total	35,500		5.2
<u>FY 1992</u>			
Dominican Republic	1,000	.5	.1
Egypt	8,000	3.9	.5
El Salvador	27,900	13.3	1.7
Turkey	3,000	1.4	.2
Venezuela	2,700	1.2	.2
Total	42,600	20.3	2.7
<u>FY 1993</u>			
(As of April 1993)			
El Salvador	22,175	11.4	3.8
Guatemala	2,000	.9	.4
Mexico	3,752	1.8	.5
Nicaragua	5,200	2.8	.9
Turkey	500	.3	.1
Venezuela	1,500	.7	.3
Total	35,127	17.9	6.0

- a/ Sales value may include shipping costs depending upon export pricing arrangement (e.g., C&F, CIF or other terms)
- b/ Total bonus values are exclusive of allowed shipping tolerances.

## EXPIRING AUTHORIZATIONS

Question: Please list programs for which authorizations are expiring before the end of fiscal year 1993.

Answer: The following list reflects expiring legislation by agency, and shows the actual date of expiration.

**Food and Nutrition Service**

<u>Law and Program Description</u>	<u>Expiration Date</u>
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The Food Stamp Act of 1977, as amended:

Section 3(o)((11), 7 U.S.C. 2012(o)(11), prohibits the Secretary from reducing the cost of the Thrifty Food Plan on October 1, 1992 (P.L. 102-351, §1, 106 Stat. 937).	9/30/93
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The Agriculture and Food Act of 1981, as amended:

The Food, Agriculture, Conservation, and Trade Act of 1990 in section 1779(a), 42 U.S.C. 1951note, authorizes appropriations for and requires the Secretary to conduct studies into various aspects of the National School Lunch Program (P.L.101-624, §1779(a), 104 Stat. 3816).	9/30/93
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The Farm Credit Banks and Associations Safety and Soundness Act of 1992 in section 515, requires the Secretary to use funds appropriated under section 214 of the Emergency Food Assistance Act of 1983 (P.L. 98-8; 7 U.S.C. 612c note) to purchase, process and distribute additional commodities for the Emergency Food Assistance Program (P.L. 102-552, §515, 106 Stat. 4136).	9/30/93
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**Federal Grain Inspection Service**

<u>Law and Program Description</u>	
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The United States Grain Standards Act Amendments contained in section 155 of the Omnibus Budget Reconciliation Act of 1981 and Public Law 100-518 provide the authority to charge and collect inspection and weighing fees (102 Stat. 2584).	9/30/93
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**Farmers Home Administration**

<u>Law and Program Description</u>	<u>Expiration Date</u>
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The Housing Act of 1949, as amended:

Section 535(b), as amended, provides that issuance by the Administrator of Veterans' Affairs of a certificate of reasonable value in a subdivision is administrative approval for the entire housing subdivision. 6/15/93

#### Extension Service

##### Law and Program Description

Section 1416(b) of the Food Security Act of 1985, as amended by §1601(d)(1) of P.L. 101-624 (7 U.S.C. 3224(b) authorization of appropriations for grants to upgrade 1890 land-grant college extension facilities. 9/30/93

#### Foreign Agricultural Service

##### Law and Program Description

Food for Progress Act, 1985 (§1110 of the Food Security Act of 1985). Waiver of annual 500,000 metric ton limitation for commodities furnished to independent states of the former Soviet Union provided by §701(2) of the Freedom Support Act. 9/30/93

### ALTERNATIVE AGRICULTURAL RESEARCH AND COMMERCIALIZATION

Question: Have you established the Alternative Agricultural Research and Commercialization Center as provided under the authorization? If so, how many, and where are they?

Answer: The Department of Agriculture established the Alternative Agricultural Research and Commercialization --AARC-- Center in Washington, D.C. on March 18, 1992. A Request For Proposals for regional centers was published in the Federal Register on December 23, 1992. Applications to host regional centers were due February 19, 1993, and 14 applications were received. The Board of Directors initiated discussion of regional centers at its meeting March 2 and 3, 1993. We anticipate that the Board will decide where the first two regional centers will be located at its meeting scheduled for May 18 and 19, 1993.

Question: Please provide a list of the members of the AARC board and their term expirations.

Answer: Board members are appointed for four year terms, except that the legislation requires the initial Board shall be appointed to serve staggered terms. The initial Board members were appointed on March 6, 1992, for the following terms.

Mark Dungan	2 years
Roger Porter	3 years
Lee Reeve	4 years
Phil Gross	4 years
John Fujii	2 years



Ralph Hardy	4 years
Jerry Caulder	2 years
Martin Andreas	3 years
Del Schneider	3 years

Currently the position on the Board which represents USDA and was held by Mark Dungan is vacant but will be filled soon. In addition, Dr. Caulder's and Dr. Fujii's terms expire in March of 1994, at which time two new Board members will be appointed.

#### FARM SERVICE AGENCY

Question. Mr. Secretary, your budget proposes to save \$61 million by combining several agencies into the Farm Service Agency. I really question how you can generate those savings so quickly in the short term.

If your plans include consolidating offices and relocating employees, does that not generate costs rather than savings in the short term?

Answer. Yes, there undoubtedly will be some short term costs generated as part of the Department's efforts to consolidate offices and combine services into a Farm Service Agency. These costs, however, are expected to be more than offset by savings resulting from staff reductions and reductions in cost related to space, equipment, administrative costs and other expenses. Clearly, the operation and maintenance cost for one agency will be considerably less than operation and maintenance cost for three agencies.

#### GOVERNMENT EFFICIENCIES

Question. The President's budget proposes to save \$112 million in outlays in 1994 through "streamlining government" and "technical adjustments."

Please provide information on how these savings will be generated showing the amounts by agency in both budget authority and outlays for both streamlining government and technical adjustments.

Answer. I will provide a table showing budget authority and outlays for the Department's streamlining proposals and technical adjustments. The savings from streamlining reflect the straight lining of several grant programs at the 1993 appropriated level. All of the technical adjustments except for \$11 million of the ASCS-Emergency Conservation Program (ECP) funds are due to expected savings in long distance telephone charges due to FTS 2000. The ECP savings are due to a technical adjustment to the baseline because of the way the 1992 disaster supplemental was scored by OMB.

(The information follows:)

Question. How much of this amount is due to the formation of the Farm Service Agency?

Answer. None of the savings were due to the formation of the Farm Service Agency?

## QUESTION SUBMITTED BY SENATOR HARKIN

### LOCAL FREIGHT ASSISTANCE PROGRAM

Question: The Local Freight Assistance Program administered by the Federal Railroad Administration has been very helpful in providing needed funding for the repair of rural branch railroad lines that often are needed for grain and forestry products. I would appreciate your providing me with your views concerning the benefits of the Local Rail Freight Assistance Program to the agricultural sector.

Answer: Although it is difficult to quantify the benefit to agriculture, it is safe to say that the agricultural sector is a major beneficiary of the Local Rail Freight Assistance Program. The object of the program is to retain rail service to local and rural areas, many of which serve agricultural shippers.

## QUESTIONS SUBMITTED BY SENATOR JOHNSTON

### HUMAN NUTRITION RESEARCH

Question: Section 1610 of the 1990 Farm bill authorized the Secretary of Agriculture to designate a Human Nutrition Research Center for the southeastern region. This language was intended to give the Department the authority to provide research funds through a cooperative agreement and to the same extent as provided to the other 5 Federal centers which currently operate under the aegis of ARS, and to provide USDA scientists with access to a \$100 million state of the art facility in Baton Rouge.

None of the current Federal facilities currently undertake research on obesity, one of the leading causes of poor health and deaths in this country, especially among the economically and socially disadvantaged. Obesity is particularly a problem in the Mississippi Delta region, the poorest region in this nation, and an area which has long been neglected in health and nutrition research.

It is my belief that using this authority, and designating the Pennington Center in Baton Rouge as a Human Nutrition Research Center, would enable the Department to develop important projects on obesity and in human nutrition needs of the Delta community on a scale commensurate with the problem, rather than at a lesser level through CSRS. Such projects could involve existing institutions like Southern University in Baton Rouge, the largest HBCU in the country, which have extensive outreach networks to those communities at risk and in addition have tremendous resources such as nursing and medical schools which can and are willing to participate in such efforts. See e.g., letter from Chancellor Spikes from Southern, attached.

To my disappointment, this authority has never been exercised, even though the Department has repeatedly been requested to use it. Attached are copies of recent letters from the Pennington Center and from me requesting the Department to exercise this authority, or any other existing authority the Department may have, to move forward with such a designation.

What is required for you to use this authority or any other authority which you possess, to designate the Pennington Center as a Human Nutrition Research Center?

Answer: In response to inquiries from members of Congress and Louisiana State University over a number of years, officials of the Department have concluded that use of the USDA name is appropriate only for Federal facilities. There is nothing in the Food, Agriculture, Conservation, and Trade Act of 1990 that requires a different conclusion. Section 1610 of that Act does authorize the Secretary to "award a grant to a research facility described in subsection (b) to establish not less than one food science and nutrition research center for the Southeast Region of the United States." Subsection (b) describes LSU and Pennington.

Question: Under what authority or directive were each of the other 5 existing Human Nutrition Research Centers established and when?

Answer: Authority for nutrition research was derived originally from the general mission mandated by Congress when the Department was established on May 15, 1862. The Organic Act of 1862 was amended in 1977 to specifically include human nutrition. Numerous authorizations by Congress since the original Act have charged USDA with conducting research in a broad array of subjects related to nutrition within the framework of the "food and agricultural sciences." USDA was given explicit authority to conduct human nutrition research in Section 1 of the Bankhead Jones Act of 1935, as amended in 1946 (7 U.S.C. 427). This legislation directed USDA to conduct and to stimulate research into the laws and principles underlying the basic problems of agriculture in its broadest aspects, including research into the problems of human nutrition and the nutritive value of agricultural commodities, with particular reference to their content of vitamins, minerals, amino and fatty acids, and all other constituents that may be found necessary for the health of the consumer. The Act made further reference to investigation of the problems of gains or losses in nutritive value that may take place at any stage in food production, distribution, processing, and preparation by the consumer.

The National Agricultural Research, Extension, and Teaching Policy Act of 1977 (7 U.S.C. 3101 et seq.) established USDA as the lead agency of the Federal Government for research, extension, and teaching in the food and agricultural sciences, and directed that research into food and human nutrition be established as a separate and distinct mission of the Department.

With this legislation Congress supported USDA's traditional emphasis on the nutritional needs of normal, healthy individuals rather than the needs of individuals requiring clinical or therapeutic dietary support. Congress recognized, however, that nutrition research necessarily addresses the issues of maintenance of health and the prevention of disease and disorders associated with nutrient deficiencies or excesses, and expressed the need for coordination between HHS and USDA. The Food Security Act of 1985 reiterates those mandates.

Separate congressional action occurred for each of the five Federally owned Human Nutrition Research Centers.

Beltsville Human Nutrition Research Center, Beltsville, MD. The history of the Beltsville Human Nutrition Research Center can be traced to 1894, when Congress authorized the Office of Experimental Stations with headquarters at Wesleyan University in Middletown, CT, to carry out human nutrition investigations. The headquarters was moved to Washington, D.C., in 1906, and to Beltsville, MD, in 1941.

Grand Forks Human Nutrition Research Center, Grand Forks, ND. The Conference Reports (H. Rpt. No. 1186, accompanying the 1966 Appropriation Act and H. Rpt. No. 1867, accompanying the 1967 Appropriation Act) provided the initial funding for a Human Nutrition Laboratory in Grand Forks, North Dakota.

Children's Nutrition Research Center at Baylor College of Medicine, Houston, TX. The Conference Report (H. Rpt. No. 98-450, accompanying the 1984 Appropriations Act) provided planning funds for a Children's Nutrition Research Center at Houston. The Second Supplemental Appropriations Act of 1984 provided the funding for construction. Congressional report language (H. Rpt. No. 98-916) stated the facility would be used for research on the nutrient needs and nutritional status of mothers, infants, and children.

Human Nutrition Research Center on Aging at Tufts University, Boston, MA. The Conference Report (H. Rpt. No. 95-520, accompanying the 1978 Appropriations Act) provided funding for the planning of an "adult human nutrition research facility"; the 1979 Appropriations Act provided construction funds. Its mission is to determine the nutrient needs of the elderly and the relationship of dietary factors to the aging process.

Western Human Nutrition Research Center, the Presidio of San Francisco, CA. The Western Human Nutrition Research Center was established on April 6, 1980, when Congress ordered (S. Rpt. No. 96-393, accompanying 1980 DOD Appropriations Act) the transfer of the nutrition research program of the Army, located at Letterman Army Institute of Research, Presidio of San Francisco, to the USDA.

Question: On what basis were the areas of expertise for each of these existing Centers established?

Answer: The programs of research conducted at Houston and Boston are based on congressional language. The research carried out at the other Centers is prescribed by national nutritional problems within the mission of the Agency.

Question: Do any of these Centers operate through a cooperative agreement with any non-Federal institution?

Answer: The Children's Nutrition Research Center in Houston, TX, operates under a general cooperative agreement with the Baylor College of Medicine and the Texas Children's Hospital. In addition, all of the Centers have cooperative agreements with non-Federal institutions for specific purposes.

Question: Please provide for the record the total research budget for each of these Centers in FY 92, FY 93 and the FY 94 budget request. Please also provide for the record the total Federal construction dollars spent on each of these Centers, as well as any construction dollars requested for FY 1994.



Answer: Total research budgets for human nutrition research in ARS are:

Agricultural Research Service

Human Nutrition Research

(\$ in Millions)

<u>Center</u>	<u>FY 1992</u>	<u>FY 1993</u>	<u>FY 1994</u>
Beltsville Human Nutrition Research Ctr. Beltsville, MD	9.2	9.2	9.4
Grand Forks Human Nutrition Research Ctr. Grand Forks, ND	8.1	8.1	8.2
Human Nutrition Research Ctr. on Aging at Tufts Univ. Boston, MA	4.6	14.6	14.6
Children's Nutrition Research Ctr. at Baylor College of Medicine Houston, TX	10.7	10.3	10.3
Western Human Nutrition Research Ctr. San Francisco, CA	5.1	5.1	5.2

No federal construction dollars were requested for the ARS nutrition centers in FY 1994. Total construction funding for the Grand Forks Human Nutrition Research Center, acquired from FY 1967 through FY 1982 budget allocations, was \$6.8 million. Construction funding for the Human Nutrition Research Center on Aging at Boston, totalling \$31.2 million, was provided in the ARS budgets from FY 1979 through 1982. Funding for the construction of the Children's Nutrition Research Center at Houston was provided in FY 1984 and totaled \$54.5 million. The Beltsville Human Nutrition Research Center structure was constructed by the Department of Defense (DOD) in 1939 and transferred to ARS. About \$0.5 million has been expended on subsequent renovations. The Western Human Nutrition Research Center resides in facilities currently owned by DOD. About \$1.7 million has been expended in modification and renovation.

Question: Despite the popular image of the Mississippi Delta, as filled with large mansions and people living a genteel life, this region--which includes almost half of my state--is the poorest in the country as documented in 1991 by the Lower Mississippi Delta Development Commission. I know, Mr. Secretary, that you as the chief House sponsor of legislation which created this Commission, are very familiar with the Delta Initiatives Report, Issued by the Commission, which

delineated the economic problems of the predominantly rural counties comprising the lower Delta Region and documented the associated barriers to optimizing health education and quality of life for the people of this region.

How can the research programs, and particularly nutrition research programs, of USDA-ARS address the problems of poverty and apathy in the Mississippi River Delta Parishes and Counties?

Answer: The ARS human nutrition research program does not conduct social science research. Some research on determinants of dietary intake is conducted by the Family Economics Research Group. Ongoing nutrition research is not region-specific but is broadly applicable nationwide.

Question: What are the current USDA-ARS human nutrition projects in Arkansas-Louisiana-Mississippi that might improve this region's economic potential?

Answer: ARS does not conduct human nutrition research in those states. Results of nutrition research are broadly applicable and are applied through education and food assistance programs. For example, the Extension Service uses results of ARS research to develop meaningful education programs tailored to the cultural needs of the recipient population. Improved nutritional status increases human performance and thus may contribute to improving economics.

Question: Are there any coordinated projects among the three states to address the human nutrition aspects of the region comprehensively?

Answer: The results of research in human nutrition are used in all areas of the United States. The Extension Service and the programs of the Food and Nutrition Service (FNS) use research results to focus their activities.

Question: What percent of human nutrition funds from USDA-ARS is spent on nutrition problems in this area?

Answer: All of USDA-ARS funds are allocated to nutritional problems of importance to all components of the general population, the results of which should be applicable to this region.

Question: Are there any nutrition research projects that utilize the 1862 land grant universities cooperatively in the Arkansas-Louisiana-Mississippi Delta region sponsored by ARS? By CSRS? By any other division of USDA?

Answer: ARS does not have any human nutrition research projects in cooperation with the Arkansas-Louisiana-Mississippi Delta region.

The CSRS has formula funding for the 1890 and 1862 land grant universities in the states. Those same universities have Extension Service Programs in the area. These funds are available to support a wide range of research, including human nutrition, at the discretion of the institution. The CSRS also administers the National Research Initiative Competitive Grants Program that has a nutrition component (NRICGP).

The Food and Nutrition Service administers food assistance programs in the area. The FNS's National Food Service Management Institute at the University of Mississippi (in conjunction with the University of Southern Mississippi) provides training and technical assistance for educators and food service personnel on food service management, including menu planning and related nutrition activities.

The Extension Service uses research to develop curricula for the Expanded Food and Nutrition Education Program (EFNEP).

Question: Intervention in early childhood, through improved nutrition, can maximize human learning and development potential. What USDA-ARS projects address early childhood nutritional intervention research in the Arkansas-Louisiana-Mississippi Delta?

Answer: ARS does not conduct field studies of nutritional intervention in early childhood. Nutritional needs of infants and children are studied at the ARS Children's Nutrition Research Center. The results are used to improve infant feeding and guide in the development of educational materials. The FNS has conducted studies of the efficacy of the Women, Infants, and Children (WIC) program. The CSRS, particularly through the NRICGP, has such research within its mission. The Extension Service addresses these concerns with the EFNEP program.

Question: Intervention in health promotion and wellness can maximize human potential by reducing obesity, hypertension, diabetes and the resulting diseases: stroke, heart disease and cancer, all problems effecting the Delta population disproportionately. What USDA-ARS research projects address these problems in the Arkansas-Louisiana-Mississippi Delta?

Answer: All the ARS Human Nutrition Research Centers conduct research on the functions of nutrients and diets in resistance to disease. All of the results are interpretable for the U.S. population. The FNS and the Extension Service use the research information in planning the WIC, EFNEP, and Nutrition Education and Training (NET) Programs.

#### LOSS OF COSTAL WETLANDS AND THE GOLDEN MEADOW PLANT MATERIALS CENTER

Question: Mr. Secretary, do you agree that the loss of coastal wetlands is a national problem and that the Department should participate in our search to stem these losses and restore this fragile resource?

Answer: We agree that coastal wetlands are an important natural resource that should be protected. The Department is currently participating with individuals, units of governments and others to help preserve these fragile wetlands.

Most of our effort has been concentrated in Louisiana because the State contains 40 percent of the Nation's conterminous wetlands and experiences nearly 80 percent of the annual costal wetland loss. Coastal Louisiana has nearly 3 million acres of wetlands and about 650 thousand acres of forested wetlands. Over 80 percent of these lands are privately owned. These coastal wetlands are a

major part of a tremendously productive ecosystem that is being lost to open water at a rate of about 20,000 acres per year, or 52 acres per day. We believe it is important that we continue to work with others to stem this loss for several renewable resources with an estimated value exceeding \$1 million annually. These wetlands contribute over one billion pounds annually to the Nation's fish and shellfish harvest. They support about 175 nesting colonies of wading birds, seabirds and waterfowl that use the Mississippi Flyway. The coastal wetlands provide a critically important buffer zone from surges caused by hurricanes and other storms for the 2.7 million people who live and work in coastal Louisiana.

Question: Mr. Secretary, what is the Department, through SCS or other divisions, currently spending on the problem of coastal wetlands?

Answer: In 1993, the Soil Conservation Service is spending about \$379,000 to operate the Golden Meadow Plant Materials Center in Louisiana. Ongoing operations will cost \$214,000, and \$125,000 will be used for capital improvements. This Center is the most active USDA unit directly involved in developing and providing vegetative materials needed to preserve coastal wetlands. However, other research, technical assistance, and cost sharing activities carried out by the Agricultural Research Service, the Cooperative Research Service, the Extension Service, Agricultural Stabilization and Conservation Service, and the Soil Conservation Service operating in coastal areas and inland watersheds contribute to stemming the loss of our Nation's coastal wetlands.

Question: Mr. Secretary, how much would it cost to construct another greenhouse at this facility?

Answer: It would cost about \$175,000 to add a second greenhouse and the lath house, head house and other apparatus needed to support another greenhouse.

Question: Mr. Secretary, how much could be used by this center for research if the center were provided sufficient resources to step up their efforts and undertake an aggressive research program?

Answer: Efforts are being stepped up each year to provide additional vegetative materials needed to replenish the coastal wetlands at the Golden Meadow Plant Materials Center. In addition to funding basic program operations at the Center, funds are provided as part of the Plant Materials Centers upgrade and renovation initiative. Since 1990, about \$1.0 million have been expended on capital improvements at the Golden Meadow Plant Materials Center as part of this initiative. It is estimated that it would cost as much as an additional \$720,000 for six more staff, architectural and engineering contracts, a contract with the Crowley Rich Experiment Station for biotechnology, a second greenhouse, a seed processing facility, a seed harvesting facility, and other supporting costs to undertake an aggressive research program in a single year.

#### LOUISIANA FEASIBILITY STUDIES

Question: Another recommendation of the Delta Initiatives report was the need to promote value added processing in the Delta area to increase economic development in this depressed area.



As part of last year's Agriculture appropriations act (PL 102-341), language was included in the Statement of Managers directing the Department to undertake a feasibility study of (1) providing assistance to Northwestern State University in Natchitoches to make needed repairs to an existing red meat processing facility in Central Louisiana and (2) establishing a further food processing facility in Central Louisiana. These new opportunities are desperately needed in Central Louisiana which has a significant agricultural base but lacks the value-added component to expand economic opportunity. Such expansion is critically important to Central Louisiana given the closure of England Air Base, and the loss of hundreds of jobs, last year. What is the status of these two feasibility studies and will copies be transmitted to my office when they are completed?

Answer: Staff from the Cooperative State Research Service have planned a site visit to Louisiana for May 18 and 19, 1993. Upon completion of the site visit, a report will be prepared. Copies of the report will be forwarded to the Senate Appropriations Subcommittee on Agriculture, Rural Development and Related Agencies.

Question: Mr. Secretary, there are many, many other important initiatives contained in the Delta Initiative report which have, to my knowledge, not been thoroughly analyzed by USDA. Nor has USDA come up with a comprehensive plan to try to implement those initiatives and recommendations falling under the jurisdiction of the Department.

Have you considered appointing a task force within the Department to analyze these initiatives and develop a plan to implement them?

Answer: As you know, Senator Johnston, the recommendations in the Delta Commission Report involve a number of programs and Agencies within the Department, as well as involving some other Federal Departments. As soon as the appropriate Under and Assistant Secretaries are confirmed, they will assist me in implementing the recommendations. For your information, we have requested \$10 million in grant funds in the FY 1994 budget to implement the recommendation that the Department increase its outreach and technical assistance to socially disadvantaged farmers. We have also provided a copy of the Delta Commission Report to Vice-President Gore's Task Force on Re-inventing Government.

Question: I understand that requests have been made to the Department to determine how many funds are still available under the disaster assistance provided to farmers under the FY 1992 supplemental appropriations bill, and in particular to corn producers who suffered from natural disaster this winter. I would point out that many fruit and vegetable farmers suffered heavy damages in the south, particularly in Louisiana and Mississippi, as a result of freeze earlier this year. If funds remain in this account, will these farmers also be eligible for assistance to the same extent and under the same conditions as the midwest farmers?

Answer: Disaster assistance for crop losses in 1990, 1991, and 1992 have been made available under the terms and conditions specified in the Food, Agriculture, Conservation and Trade Act of 1990. These authorities to some extent provided greater assistance for quality losses to fruit and vegetable producers and other nonprogram crop farmers than to program crop producers.

Under these crop loss authorities for nonprogram crops, the harvested quantity which is unmarketable because of quality problems is excluded from the calculated disaster year production. Many fruit and vegetable crops have greater alternative marketing uses as well. For example, fruits usually sold to the fresh market may, because of quality problems, still have a processed market. Although disaster payments are adjusted to reflect receipts from the secondary market, the returns to the producer are in many cases still more favorable than the returns to program crop producers who may have harvested enough of the crop to be ineligible for assistance although the value of the crop may be negligible because of quality problems.

Question: I further understand that the Secretary of HUD has been appointed as the informal chairman of an Administration Task Force on Disaster Assistance and is looking at ways to improve delivery of disaster assistance.

I have received many complaints over the years about the current program's guidelines. For one, only if half the county is impacted is assistance made available under the disaster aid program as a practical matter. So even if a hurricane, for example, devastates one small area, no funds are available unless virtually 26 states suffer damage from other disasters. Second, current rules set the loss trigger too high in many cases for farmers to qualify. Many sugar farmers in southern Louisiana parishes were damaged severely, for the third year in a row, last fall as a result of Hurricane Andrew. Yet, few could qualify because of the high trigger and county average rules.

Will you review the current program guidelines to determine whether those really needing assistance are able to receive it and make recommendations for improving the current program?

Answer: Secretary Cisneros has coordinated an interagency task force to develop administrative and legislative changes needed to facilitate the delivery of disaster assistance in South Florida. Findings and recommendations of the task force are under review, and should be of significant benefit in improving delivery of programs in Florida as well as our response to natural disasters in the future.

I would like to add several points. First, with regard to high trigger and county average rules, we would need legislation to change loss thresholds and the use of average county yields mandated in the Food, Agriculture, Conservation and Trade Act of 1990 for determining eligibility of sugarcane producers for disaster payments on crop losses in 1990, 1991, and 1992.

Second, although eligibility for the disaster loan program administered by FmHA and for payments under livestock feed programs administered by ASCS is contingent on a county designation, based on a certain level of county-wide loss, eligibility for disaster payments under the crop loss disaster program administered by ASCS does not require county designation and is not contingent on a county-wide loss trigger. Any farmer with a qualifying crop loss is eligible for disaster payments, regardless of the experience of other farmers in the county. Cost share assistance to farmers under the Emergency Conservation Program administered by ASCS is also available to farmers on an individual basis. Finally, we consider the Federal Crop Insurance Program, rather than ad hoc disaster programs, offers farmers the most reliable protection against natural disasters on an individual yield basis.

Question: Will you participate in the HUD-sponsored Task Force and make recommendations for improving the delivery of disaster aid to farmers who suffer from natural disaster as part of this Task Force's report?

Answer: USDA agencies have participated fully in inter-agency efforts to review and recommend improvements in disaster assistance programs. As indicated earlier, recommendations of the task force are currently under review.

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## QUESTIONS SUBMITTED BY SENATOR BYRD

### AQUACULTURE

Question: The Committee directed that, from within available funds, program and site plans be established for the development of a national center for fresh water aquaculture research. What has been the progress to date with respect to this directive?

Answer: ARS has identified the following criteria as program requirements for a site suitable for a National Center for Fresh Water Aquaculture Research.

- a. A continuous water supply with a flow rate of 1000 gallons per minute during minimum flow periods.
- b. The water must have a purity that would support rainbow trout culture.
- c. There must be sufficient land (estimated 50+ acres) at the site for a research laboratory/office building and fish culture facilities.
- d. The site should be reasonably close to a population center and to major highways to provide access and suitable living conditions for the Center personnel.
- e. To assist in the Department of Agriculture's rural development initiative, the Center should be located in an area that does not already have a large Federal presence, and outside of a major metropolitan area.

ARS has used public sources of information to identify springs that could provide water for such an aquaculture research center. In addition, we have contacted State and Federal agencies for information on potential water sources. Potential sources without sufficient developable land were excluded. In addition, sources where the water resources already were committed were excluded.

We have identified 16 springs that potentially could support an aquaculture research center. In addition, we have identified 5 worked-out coal mines that appear to be producing suitable water supplies. Almost all of these sites are on private land.

We are now in the process of collecting water samples and water flow rates from these sources to determine if they produce sufficient high quality water to support aquaculture research. During the sample collection process, the sites also are examined to determine if sufficient developable land is available for the research center.

After the results of these analyses are available about the end of May, we will narrow the list of sites to no more than 5, and do an in-depth analysis of each site. We expect that this site analysis screening process will be completed by the end of this fiscal year.

#### APPALACHIAN SOIL AND WATER CONSERVATION LABORATORY

Question: List any projects that have terminated or are planned for termination in FY 1993 and FY 1994.

Answer: The following CRIS projects are planned for termination in FY 1993. None are planned for termination in FY 1994.

- o Evaluate and Optimize Agricultural Utilization of Coal Fired Plant By-Products.
- o Impact of Hilly Topography on Forage Production Efficiency in the Appalachian Region.
- o Alleviate Acid Soil Toxicities and Nutrient Deficiencies to Improve Forage Production.
- o Optimize Performance of Forage Legumes and Microbial Associations for Acidic Soils.
- o Low Impact Forage Production Systems for Marginally Productive Soils in the Appalachian Region.
- o Forage/Livestock Production Research.

These CRIS projects will be replaced by the following:

- o Alleviation of acid soil constraints to plant growth, with the objective of developing criteria to optimize utilization of natural deposits and industrial by-products as resource materials for improving plant growth in acid soils.
- o Selection and improvement of plants for infertile acid soils with the objective of making available forage and crop plants which are genetically adapted to overcoming growth limiting properties of acid soils.
- o Management and ecology of pastures in the appalachian region, with the objective of developing knowledge of plant adaptation, species composition, and productivity in pasture and silvi-pastoral environments to establish criteria for management practices to meet the nutritional requirements of livestock.
- o Livestock grazing systems and water quality in appalachian pastures, with the objective of developing strategies for enhancing livestock production, profitability, and water quality on pastures under the diverse physiographic conditions of the Appalachian hill-lands.

Question: What are the research results related to those projects?



Answer: I understand that scientists have made significant progress in dealing with identified problems faced by producers in the Appalachian region. Research already completed addresses problems related to acidic soils and hilly conditions faced by many producers in this region. Scientists have determined that certain power plant wastes can be used to improve plant growth under acidic soil conditions and have determined a number of other factors that will be important in developing specific management practices for forage-livestock systems in this region.

Question: What are the FY 1992, and FY 1993 funding levels for the Appalachian Soil and Water Conservation Laboratory?

Answer: The funding levels for the Appalachian Soil and Water Conservation Laboratory for FY 1992 and FY 1993 are \$3,421,771 and \$3,489,100, respectively.

Question: What is requested in the FY 1994 budget?

Answer: The agency is requesting \$3,534,400 for FY 1994 for support of this laboratory.

Question: Also provide the number of people on board and FTE's at the facility for FY 1992, FY 1993, and those same numbers that are budgeted for FY 1994 as in FY 1993.

Answer: This laboratory employs 66 people which involve 53 FTE's in FY 1992 and 52 FTE's in FY 1993. The same number of people and FTE's will be employed in FY 1994.

#### APPALACHIAN FRUIT RESEARCH LABORATORY

Question: Research conducted at the Appalachian Fruit Research Laboratory over the past 10 years has demonstrated that biological control agents can effectively replace chemical pesticides in many post-harvest situations. What needs to be done to link the biological control technology with the commercial packing line operation?

Answer: Significant progress has been made, through research at the Appalachian Fruit Research Laboratory in the past 10 years, to reduce the need for or reliance on chemical pesticides to control postharvest diseases through the use of microbial biological control agents. At the present time, none of these biological agents can effectively replace chemical pesticides in commercial postharvest disease control situations. The initial impact of microbial biological control agents in commercial situations will likely be to supplement the use of chemical pesticides so as to reduce amounts needed to be applied.

So far, results with microbial biological agents to control postharvest diseases have been obtained only in the laboratory. In order to link this technology to commercial packing line operations, a pilot test demonstration of the practicality of this approach on a large scale is needed. In addition, there is a need to develop effective formulations of microbial biocontrol agents, as well as application methodology, for use in commercial packing line operations. Finally, there is a need to incorporate or integrate this technology with other fruit production and postharvest practices or technologies.

Question: List any projects that have terminated or are planned for termination at the Appalachian Fruit Research Station in FYs 1993 and 1994.

Answer: There are 8 in-house CRIS projects at the Appalachian Fruit Research Station. Of these, 4 projects terminated in FY 1993. ARS expects to extend all 4 projects until FY 1995. No projects will terminate in FY 1994. The 4 projects that terminated in FY 1993 are:

Molecular biology and genetic engineering of fruit trees;

Host resistance and stress adaptation in fruit crops;

Breeding and cultivar development of pear and peach; and

Biological management of deciduous tree fruit insect and disease pests.

Question: What are the research results related to those projects?

Answer: Producers of fruit crops in the Appalachian and mid-Atlantic region face various problems from diseases and postharvest quality deterioration. Completed research has identified some of the specific mechanisms at work in genetic resistance to viral and bacterial diseases that will lead to the development of new, resistant cultivars. Scientists have also made progress in determining the factors responsible for postharvest damage of fruits. Improved pest control strategies have also been developed which rely on biological agents or highly selective pesticides and natural compounds that will help reduce the use of synthetic pesticides on fruit trees.

Question: Please provide the number of people on board and FTE's at the Appalachian Fruit Research Laboratory for FY 1992, FY 1993 and the FTE and on-board personnel budgeted for FY 1994.

Answer: In FY 1992, there were a total of 83 employees at the Appalachian Fruit Research Laboratory; in FY 1993 there were 83 employees; and 83 employees are budgeted for FY 1994. The FTE for FY 1992 was 63 and 61 for FY 1993 and FY 1994. We project that about the same number of employees and FTE's will be on board in FY 1994 as in FY 1993.

#### WATERSHED OPERATIONS

Question: Mr. Secretary, what funding has been provided to West Virginia, by project, for P. L. 566 and P. L. 534 watershed projects in FY 1992 and FY 1993? Please provide the dollar amounts and projects to be funded out of your FY 1994 budget request.

Answer: The information for FY's 1992 and 1993 follows. However, we cannot provide this information for FY 1994 as we are just beginning the allocation process. The Soil Conservation Service will soon be contacting States to determine what their budget needs will be for 1994. SCS will then analyze this data and make an initial State-by-State allocation, probably in August.

WEST VIRGINIA  
PUBLIC LAW 83-566  
FISCAL YEAR 1992 ALLOWANCES

<u>Project or Activity</u>	<u>Amount</u>
Ongoing Project Support	1,200,000
State Office Support	500,000
Upper Mud	5,050,000
Howard Creek	4,250,000
Wheeling Creek	<u>7,668,000</u>
Total	18,668,000

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WEST VIRGINIA  
PUBLIC LAW 83-566  
FISCAL YEAR 1992 ALLOWANCES

<u>Project or Activity</u>	<u>Amount</u>
Lost River	100,000
Ongoing Projects Support & Contracts	997,883
State Office Support	450,000
Repairs	300,000
North and South Mill Creek	<u>4,250,000</u>
Total	6,097,883

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WEST VIRGINIA  
PUBLIC LAW 83-566  
FISCAL YEAR 1993 ALLOWANCES

<u>Project or Activity</u>	<u>Amount</u>
Ongoing Project Support	1,100,000
State Office Support	572,000
Cranberry Channel	2,200,000
Howard Creek	5,450,000
Mill Creek	9,000,000
Contract Modifications	700,000
Geologist Trainee	<u>10,000</u>
Total	19,032,000

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, WEST VIRGINIA  
PUBLIC LAW 78-534  
FISCAL YEAR 1993 ALLOWANCES

<u>Project or Activity</u>	<u>Amount</u>
Ongoing Project Support	1,049,000
State Office Support	500,000
Lost River	10,300,000
North and South Mill Creek	3,646,000
Contract Modifications	<u>500,000</u>
Total	15,995,000

CONSOLIDATION OF OFFICES

Question: Mr. Secretary, you will recall that when we met in February, we discussed the recommendations of the previous Administration with regard to reorganization of the field structure of the Department. At that time, I expressed serious concerns over some of the proposals being put forth, and appreciated your assurance that you would be looking at staff reductions at the central office first instead of looking to reduce staff in the field. I note from your budget submission that you are proposing a new Farm Service Agency.

How does this proposal relate to the recently established Rural Development Administration?

Answer: The Farm Service Agency, called the FSA, included in the budget is based on combining the programs of the Agricultural Stabilization and Conservation Service, the commodity price and income support programs funded by the Commodity Credit Corporation, the Soil Conservation Service, and the Farmers Home Administration. The programs of the Rural Development Administration are separate. Planning for the FSA is still underway and some modifications may be appropriate. We are looking at the mission of the RDA to determine if certain programs proposed for inclusion in the FSA would be more appropriately administered by the RDA.

Question: In West Virginia, the majority of the services provided by the Soil Conservation Service are non-farm related. Services provided now relate to flood control and prevention, water quality and improvement, soil surveys and maintaining the land and water resource base. Obviously, given West Virginia's topography, soil erosion is a major concern.

Do you plan to factor these services into the criteria when making recommendations for office consolidations?

Answer: Yes, we will consider factors such as those you describe which may not have been adequately portrayed in the data that was available. The State Food and Agriculture Councils have been involved in this process and will continue to advise us, since they know the local conditions best.

Question: Please provide the criteria that you will use for reorganization.



Answer: I have not made a final decision on the criteria that will be used for reorganization of the field offices.

Question: Will we have an opportunity to review your recommendations in draft form, prior to final submission?

Answer: I have solicited suggestions from Congress and plan to continue to involve you in the reorganization process. I will need your assistance and support, if we are to make meaningful changes in the Department.

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## QUESTIONS SUBMITTED BY SENATOR DeCONCINI

Question: Mr. Secretary, in September 1992 President Bush announced that \$755 million from the Dire Emergency Act of 1992 (PL 102-229) was being made for agricultural disasters. The Supplemental Appropriations, Transfers and Rescissions Bill of 1992 included an additional \$320 million for the Commodity Credit Corporation for additional disaster assistance as authorized by the 1990 farm bill and PL 102-229.

What is the current balance of unexpended CCC funds available for disaster assistance?

Answer: A total of \$2,121 million has been made available for disaster payments on crop losses in 1990, 1991, and 1992.

The total funding includes: (1) \$995 million provided in the first emergency supplemental of 1992 for Phase I of the disaster payment program covering crop losses in either 1990 or 1991, (2) \$100 million provided for Phase II of the program covering crop losses on program crops planted in 1991 for harvest in 1992, (3) \$655 million provided for Phase III of the program covering unclaimed losses in any one of the three years 1990, 1991, or 1992, and (4) \$382 million provided in the second emergency supplemental of 1992 to supplement funding available for payments under Phase III of the program, less about \$11 million in funding transferred to FmHA for migrant labor housing assistance.

To date, disaster payments at the prorata factor of 50.04 percent total about \$1,616 million. The total includes: (1) \$963 million for Phase I, (2) \$97 million for Phase II, and (3) \$556 million for Phase III. An additional \$210 million in payments is anticipated, including \$60 million in payments on applications on hand and \$150 million in payments on corn quality losses. With funding of \$2,121 million and payments of \$1,826 million, the balance of funding after payments for corn quality losses would total \$295 million.

Question: Mr. Secretary, the Department of Agriculture recently announced that a special sign-up would be held to allow corn producers to apply for disaster assistance based on quality losses. Why was the eligibility limited to corn?

Answer: Prior procedures have provided for contaminated corn to be excluded from the amount of production used to determine eligibility for disaster payments. The similar exclusion of corn with severe quality problems we believe was warranted for many producers who would otherwise be ineligible for

assistance because the quantity harvested was above the threshold for payment eligibility. We are currently reviewing requests to extend these quality adjustments to other program crops.

Question: I believe there is a definitive, though complex, relationship between the outbreaks of whitefly and unusual weather patterns in Arizona for the past several years. As you know, the whitefly has resulted in severe crop losses for cotton growers and other producers in Arizona and elsewhere.

The report language which accompanied the 1992 supplemental appropriations bill (Senate Report 102-395) urged that cotton producers experiencing losses associated with whitefly be made eligible for benefits. The report noted specifically that the economic losses suffered by cotton producers include total yield losses as well as low, sometimes unsalable, quality of fiber.

Is the Department actively considering making producers with certifiable quality losses in other crops eligible for disaster assistance?

Answer: Yes, as indicated earlier, the extension to other program crops of quality adjustment procedures announced recently for the 1992 corn crop is under consideration.

Question: Is sufficient data available to the Department to make assistance available to producers who suffered quality losses due to whitefly damage?

Answer: We are unable at this time to judge the adequacy of data for determining quantity and quality losses due to whitefly infestation. As you know, we have considered losses due to whitefly infestation ineligible for disaster payments under definitions in the authorizing legislation of "damaging weather and related conditions". Our understanding has been that the cause of whitefly infestation cannot be conclusively isolated, and that a variety of factors working in concert may have been the catalyst for the increase in whitefly populations, e.g., the lack of chemical controls and a decline in natural predators. However, "damaging weather" is not one of those factors.

Question: My home state of Arizona has experienced severe flooding since January 1993. Agricultural producers lost millions of dollars in crops which were in the ground at the time of the flooding, suffered damage to their land, homes and other property in the floods and will be prevented from spring and further plantings until their lands can be restored.

Will you provide me a list of programs which may be available to assist producers experiencing losses as a result of the flooding?

Answer: USDA agencies can provide the following kinds of assistance to help producers recover from flooding damages: (1) livestock feed assistance from the Commodity Credit Corporation, (2) help in restoring damaged eligible land, through the Agricultural Stabilization and Conservation Service and the Soil Conservation Service, (3) low interest loans to farmers, through the Farmers Home Administration, (4) indemnity payments to farmers for crop losses covered by insurance, through the Federal Crop Insurance Corporation, and (5) technical information and assistance in developing plans to reduce disaster effects and

return to normal after a disaster, through the Extension Service, in cooperation with the State Cooperative Extension System (CES) and State land-grant universities.

Question: Will you provide me a list of programs which have already been made available to growers in Arizona in response to the flooding disaster?

Answer: All of these programs are available to Arizona producers with production and property losses. Probably the primary emergency program currently assisting producers in Arizona with flood losses is the Emergency Conservation Program (ECP) administered by the Agricultural Stabilization and Conservation Service. The ECP provides emergency funds for sharing with farmers and ranchers the cost of removing debris and rehabilitating eligible farmlands damaged by natural disaster. Much of the ECP work in Arizona has focused on repair of irrigation canals and other facilities damaged or destroyed by the flooding.

Question: Can any of these programs be funded from the unspent emergency appropriations disaster assistance associated with legislation and declarations made in 1992?

Answer: The 1994 budget does not propose additional funding for the disaster payment program. Full funding is requested for the Federal Crop Insurance Corporation, and we consider the crop insurance program to be primary disaster assistance program available to farmers for protection against losses from natural disasters. The budget also proposes to maintain funding for the emergency conservation and livestock feeding programs administered by the Agricultural Stabilization and Conservation Service and the farm lending programs of the Farmers Home Administration.

Question: What funds are included in the Department's FY94 budget proposal to provide assistance to producers with losses due to this flooding?

Answer: The 1994 budget does not propose additional funding for the disaster payment program.

## FRESH ORANGE EXPORTS TO JAPAN

Question: International trade is extremely important to American agriculture and especially to citrus growers in Arizona and other producing areas. The visit of the Japanese Prime Minister with President Clinton and current efforts to further open the Japanese market to American products presents a question of interest to growers in my state. What efforts are being made by this Administration to reduce the duty in Japan on fresh oranges exported from the United States?

Answer: The U.S.-Japan Beef and Citrus Agreement, signed on July 5, 1988, eliminated quotas on fresh oranges imported into Japan as of April 1, 1991. Orange exports to Japan are still restricted by the current tariff which is bound at 40 percent in-season and 20 percent off-season. This Administration will continue to raise the issue of high, restrictive tariffs on oranges with Japanese officials in all appropriate bilateral consultations such as the annual U.S.-Japan Trade Committee meetings.

Negotiated reductions in tariff rates on oranges are also being addressed in the Uruguay Round of multilateral trade negotiations. President Clinton announced in early April a plan to extend the fast-track authority for the Uruguay Round negotiations. It is expected that tariff rates on oranges will be reduced by 15 percent over a six-year period as part of a successful Uruguay Round agreement. U.S. orange exports to Japan in 1992 reached 165,000 metric tons, an increase of 32 percent over the average annual exports during the period 1988 through 1990 when quotas were in effect.

#### MARKET PROMOTION PROGRAM

Question: The Market Promotion Program -- MPP -- has been a very important means to assist American farmers in operating in foreign markets. Do you support continued funding for this program?

Answer: Yes, I support continued funding for MPP at the \$148 million level as provided in the 1994 President's budget. Our proposal continues the program at this year's level, which we believe is adequate for meeting our market promotion objectives.

Question: The Animal and Plant Health Inspection service (APHIS) has an essential role in protecting the public by ensuring the safety of the nation's food and fiber supply. I commend your attention to problems in this area, particularly with respect to meat inspections. Can citrus growers expect continued attention to their inspection needs as well?

Answer: Yes, USDA will continue in efforts to protect citrus as well as other U.S. fruit and vegetable crops from pests and diseases. Survey, control, and regulatory activities are maintained through APHIS' Mediterranean and Mexican fruit fly programs which were started during the Depression. Detection surveys are carried out in Alabama, Arizona, California, Florida, Georgia, Louisiana, Mississippi, New Mexico, South Carolina, Texas, Puerto Rico, and the U.S. Virgin Islands. Plant materials coming from outside the United States are inspected at ports of entry under the Agriculture Quarantine Inspection program. Program methods include inspection and regulation of garbage from carriers, detector dogs at airports and post offices, and passenger inspection. APHIS also continues to support the Caribbean fruit fly protocol for exports to Japan.

With respect to meat inspections, the Food Safety Inspection Service (FSIS) is the agency responsible for that service. FSIS submits samples from slaughter plants to APHIS' National Veterinary Services Laboratory for tuberculosis identification as part of a surveillance system. Positive results for tuberculosis will lead to a follow-up investigation by APHIS to traceback the animal to its herd of origin. In addition, APHIS provides FSIS with informational materials related to sample submissions and includes FSIS personnel in their national training courses.

Question: As you know, Mediterranean, Mexican and other flies pose a hazard to the U.S. citrus industry. Do you support additional funds for these eradication programs?



Answer: I support providing sufficient funding in order to protect the U.S. fruit and vegetable industry from the threat of exotic fruit flies. We provide funding annually for regular survey, control, and regulatory activities, through the Mediterranean and Mexican fruit fly programs. We also have provided funding to combat exotic fruit fly outbreaks in Florida, California, and Texas. Since 1981, the Department has spent approximately \$105 million for this purpose. For Fiscal Year 1993 I have made available \$25.9 million in emergency funds to finance the Federal share of the fruit fly eradication activities in California.

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## QUESTIONS SUBMITTED BY SENATOR COCHRAN

### CROP INSURANCE

Question: The budget indicates that the proposed reform of the Federal Crop Insurance Program will be phased-in, beginning with the 1994 crop. Over what period of years would this proposal be phased in?

Answer: The proposal calls for a phase-in of area-yield coverage to be completed in 1998.

Question: How many counties would be offered area-yield rather than individual coverage the first year?

Answer: We expect to extend the new area-yield coverage to about 700 counties in crop year 1994. However, individual coverage will be continued in each of these counties for at least the first year. In those counties with the most adverse loss ratio experience over the past ten years, individual coverage will be modified to make the program more actuarially sound.

Question: Would all crops in these counties be covered?

Answer: For crop year 1994, we plan to extend the pilot area-yield program for soybeans to additional counties, and to offer such coverage for the first time for corn, wheat, and grain sorghum. If feasible, we would also offer it to a limited extent for cotton, peanuts, and sunflowers.

Question: How do you calculate that this proposal to reform the federal crop insurance program would result in savings of \$105 million in delivery costs in fiscal year 1994?

Answer: About \$18.2 million of the \$105 million in total savings would be achieved through reductions in FCIC's overhead expenditures. Continuation of the long term decline in business done under agency sales and contracts is would account for about \$6.8 million of the total saving. The rest of the savings be achieved by reductions in payments to reinsured companies. We expect that the book of business done by these companies will decline slightly as we phase-in the area-yield coverage and modify individual coverage.

Question: If this proposal is approved, do you foresee any problems where crops in counties for which individual coverage is now provided would not be covered under the area-yield insurance?

Answer: Currently, we are proposing to continue individual coverage for all crop counties where it is now provided. About 5,100 crop county programs would be modified, primarily by reducing yield guarantees, to make them more actuarially sound. For crop year 1994, area-yield coverage for soybeans, corn, wheat and grain sorghum would also be offered in about 700 counties. If feasible, it would also be offered in a limited number of counties for cotton, peanuts, and sunflowers. By 1998, the phase-in of area coverage would be complete, and individual coverage would no longer be offered. The phase-in period will allow time for resolving certain data and other technical problems relating to area-yield coverage.

Question: In the fall of last year, a 2-year pilot test was approved offering insurance to soybean farmers based on county rather than individual yields. Wouldn't it be better to conclude and evaluate that pilot test before extending the program to other areas and crops as the fiscal year 1994 budget proposes?

Answer: We think the phase-in of area-yield coverage, as proposed in the 1994 budget, is a prudent course of action. There will be time to develop area-yield coverage on a crop by crop basis and to evaluate the new coverage before individual coverage is actually phased-out. We have given considerable thought to the need for such a phase-in period which is why we modified the initial proposal that was made for switching to such coverage all in the first year.

#### FARMERS HOME RENTAL ASSISTANCE

Question: I have been informed that there is a critical need for additional rental assistance units for servicing purposes in Mississippi to assist very low and low income tenants living in Farmers Home Administration financed complexes.

I am informed by the Mississippi Farmers Home State Office that of the 15,643 apartment units financed in the State, there are presently 4,697 families living in these apartments paying over 30% of their income for housing and utilities. In addition, there are presently 716 apartments vacant, mostly due to the fact that very low and low income tenants cannot afford to pay the rents required without rental assistance. Also, most of the complexes that do not have full rental assistance are in financial trouble because of the high vacancy rates they are experiencing. I understand there is a need for approximately 5,400 rental assistance units in Mississippi to assist tenants now paying rent overburden, and to enable families to move into vacant units at rents they can afford to pay.

How many other states are sharing these problems and what is the Department doing to address these critical needs?

Answer: According to a recent survey, conducted by FmHA, there are over 80,000 families and individual tenants residing in FmHA financed projects in what we call rent overburden, that is to say they are paying in excess of 30 percent of their income for rent and utilities. Further, there are 20,000 vacancies existing in FmHA projects, and to a large extent this is due to the lack of income to pay the required rent. Over \$1 billion in additional funding would be required to assist all tenants paying in excess of 30 percent of income for rent and to provide rental assistance for vacant units in order to make them affordable for families in the area. We are exploring other remedies to address the most critical needs, but as of yet, no final solution has been reached.

Question: As I understand the situation, the fiscal year 1993 appropriation for rental assistance is now short of the amount required to renew existing contracts, leaving no funds available for servicing. At the time we enacted the appropriations bill, it was our understanding that the amount provided would be sufficient both to fund renewals and servicing.

What is the extent of the fiscal year 1993 shortfall required to meet both renewal and servicing requirements? A supplemental appropriation is not requested in the President's Budget for rental assistance, why?

Answer: In total a shortfall of \$68 million exists in order to renew existing contracts and \$7 million is needed for emergency servicing needs. We are exploring a funding alternative to meet these needs.

Question: What will be the impact of not providing the additional funds required?

Answer: Without the additional funding, FmHA estimates that about 5,500 families currently receiving rental assistance would lose this assistance in 1993, and over 200 section 515 projects could face default as a result. FmHA and the Department have been considering several options for meeting the shortfall, and a supplemental appropriations was one of the options considered.

Question: Another problem which has been brought to my attention is the fact that new projects are sometimes built with rental assistance in markets where vacant units exist without access to rental assistance.

Building new projects where there is available existing does not appear to make a great deal of sense from a cost standpoint. How extensive is this problem and what, if anything, is done to prevent this situation?

Answer: I would agree that it would not make sense to build new rental housing projects in areas where vacant units exist in FmHA financed projects. FmHA's regulations require the completion of a market study to assess the availability and characteristics of existing housing resources in the market area of a proposed project. The regulations also require coordination of the market study with HUD to insure that another Government financed project is not be considered for the area. The construction of new units in the same community or are in which there is a significant number of vacant units would not be expected because of these requirements.

Question: I have heard it said that the earmarks on rental assistance funding contained in the appropriations act contribute to the problem.

For fiscal year 1993, for example, a floor of \$122,522 thousand is provided for new construction. Is this a problem? Would the Department be spending less than the floor for new construction and applying these funds for other purposes if the earmark did not exist? What is the new construction funding requirement for fiscal year 1994?

Answer: FmHA has proposed in the FY 1994 budget, as in past years, to delete the appropriation language setting limits for the various categorical uses of rental assistance, i.e., renewals, new construction, and servicing. FmHA is of the

opinion that this would provide the programmatic flexibility needed to address growing rental assistance needs. For example, one suggestion that has been made is that FmHA should allocate additional rental assistance to existing units to assist tenants paying in excess of thirty percent of their income for rent rather than providing rental assistance for newly constructed units. While this suggestion may have some merit, considering the existing budgetary constraints, FmHA has been restricted by the language in the Appropriations Acts. I should also point out that while new construction is definitely needed to meet critical housing needs in some areas, each unit constructed adds to the long-term problem of finding the funds to meet the demand for renewals. The 1994 estimate for new construction is approximately \$113 million.

Question: The fiscal year 1994 budget requests an increase of \$84 million for rental assistance payments to cover the costs of expiring contracts, and proposes \$75 million to fund a rural housing voucher program.

How will the fiscal year 1994 funding proposals meet the needs of very low income and low income families for safe, decent, and sanitary housing at affordable levels?

Answer: The increase of \$84 million requested in the FY 1994 budget for the renewal of expiring rental assistance agreements will meet the anticipated demand. However, it will not permit extending rental assistance to any of the approximately 80,000 families and individuals paying in excess of 30 percent of income for rent. The \$75 million requested for the voucher program will make available similar rental assistance to families in areas in which there is sufficient existing rental housing available, but is not affordable to low and very low income families without the availability of rental assistance.

#### FOOD SAFETY AND INSPECTION SERVICE

Question: The Administration proposes increased funding of \$4 million in its economic stimulus proposal and \$10 million in fiscal year 1994 to hire and train an additional 200 inspectors; In addition, an increase of \$8 million is proposed for fiscal year 1994 for a major research initiative to investigate foodborne pathogens. As you are aware, questions were raised about the adequacy of the U.S. inspection system when contaminated ground beef caused extensive illness and two deaths earlier this year.

While hiring inspectors is a good first step, you have indicated that visual inspection cannot detect pathogenic bacteria. Can you please tell us more about the \$8 million research initiative proposed and what the Department's long-term goals are for revamping the meat and poultry inspection system to assure the safety of our food supply?

Answer: In developing the future inspection program we will be focusing on enhanced public health protection at critical points from the farm to the dinner table. Microbiological monitoring programs will be developed employing Hazard Analysis and Critical Control Point (HACCP) principles in beef slaughter plants and ground beef processing plants. The Department is proposing to develop an on-farm investigation program and epidemiological studies of foodborne enteric pathogens, beginning with E. coli O157:H7. We are also considering legislative changes to mandate animal identification and traceback to determine the herd of origin of infected animals.



We will be speeding the development of tests that can be used by in-plant inspectors to identify infected product, and will also be proposing to expand our microbiological baseline studies to include all beef, poultry, and swine. We propose to conduct a baseline study for ground beef. Stricter requirements for boneless beef reinspection are planned and we are proposing to publish a regulation on cooking times for hamburger patties.

Finally, we propose to strengthen food safety education for food service establishments and consumers. We propose to mandate the use of safe-handling labels on raw meat products sold at the food service and retail level. In accomplishing these goals we will be working closely with the Food and Drug Administration and other agencies that share a role in food safety.

Some of these improvements will be difficult to achieve. However, the \$8 million included in the Department's 1994 budget request will be a step in the right direction for providing the people of this country with an up-to-date inspection system that is focused on foodborne disease.

Question: The fiscal year 1994 budget proposes to collect \$104 million from new user fees on meat and poultry inspection services beyond a single eight-hour primary approved shift. Industry now pays overtime costs for services beyond any eight-hour shift. What is the definition of a "primary approved shift" for purposes of the new user fee proposed?

Answer: Current law authorizes the Department to recover the full cost of inspection services performed when the inspector is in an overtime pay status, and the plant is operating beyond an approved first or second shift. Plants receive inspection at no cost to them when it is performed on an approved regularly scheduled first or second shift.

The proposal included in the 1994 budget request would provide one shift of inspection per day at no cost to the plant. The criteria for determining which shift of a multishift operation is first or primary will be established through implementing regulations that will be proposed and subject to comments from all interested parties.

#### ALTERNATIVE AGRICULTURAL RESEARCH AND COMMERCIALIZATION

Question: The fiscal year 1994 budget requests a \$12.75 million increase above the \$7.25 million current level for Alternative Agricultural Research and Commercialization. Would you please give us an update on the status of fiscal year 1993 funding for this program.

Answer: On August 17, 1992, a Request for Proposals was published in the Federal Register. The requests for assistance from the Alternative Agricultural Research and Commercialization

--AARC-- Center totaled \$175,000,000 in the 407 pre-proposals received; total project budgets were \$448 million so the applicants were willing to commit \$1.50 for every \$1.00 requested. Following review by the Board of Directors, 48 applicants were requested to submit full proposals asking for about \$30,000,000. Currently, final negotiations are underway with 22 firms requesting the roughly \$10 million of available funds. The AARC Board of Directors plans to use at least 85 percent of the 1993 funds as well as funds carried over from 1992 for support of 22 projects.

Question: Have regional centers been selected? If so, how many are being established and where will they be located?

Answer: Request For Proposals for regional centers was published in the Federal Register on December 23, 1992. Applications were due February 19, 1993. The AARC Center received 14 applications. The Board of Directors initiated discussion of regional centers at its meeting March 2 and 3, 1993. We anticipate the Board will decide on the first two regional centers at its meeting scheduled for May 18 and 19, 1993.

Question: What is the status of proposals for grants?

Answer: The AARC Board of Directors plans to invest the approximately \$10 million of available funds in 22 projects. Negotiations with successful applicants are now in their final stages. Cooperative agreements will serve as the legal mechanism for projects rather than grants.

Question: Which proposals have been selected for funding?

Answer: Once the AARC Board of Directors completes final negotiations on the 22 projects selected for funding the Board will announce the recipients, probably by June 1. These 22 projects range from small start-up operations to large impact technologies and involve 14 different plant and animal materials.

#### RUSSIAN AID PACKAGE

Question: President Clinton's Russian aid proposal includes an \$894 million food aid package, \$700 million in low-interest, long-term credit and \$194 million in food donations. The \$700 million in grain sales is being provided under the Food for Progress program which requires that 75 percent of the commodities move on U.S. vessels. I understand that there is now a problem with the \$30 million cap on the amount of transportation costs that USDA can pay under that program. Will the Administration seek legislation to increase that cap?

Answer: At this time, the Administration is seeking to identify options and authorities which are available for funding the transportation costs of the Food for Progress credit program. We are focusing on administrative solutions to the transportation funding issue rather than a legislative solution such as seeking an increase in the \$30 funding limitation.

Question: What is the estimated amount that will be spent on transportation costs out of the \$700 million in food aid proposed?

Answer: The amount will vary according to the commodity mix that is still to be negotiated. Based on the assumption that the program will consist primarily of bulk commodities, we have been estimating ocean freight costs in the range of \$200 million to \$250 million.

Question: What will be the repayment terms on the direct food aid being provided?

Answer: The \$194 million component of the food aid will be provided on a grant basis. The \$700 million Food for Progress credit agreement must still be negotiated, so the final terms have not yet been determined. However, we are

proposing repayment terms in the range of 15 years, including a 7-year grace period during which principal payments will be deferred. The interest rates will be concessional -- that is, lower than commercial rates.

Question: Would you please give us an update on Russia's defaults under the USDA credit guarantee program. What is the total amount now owed by Russia? How much of this debt will be rescheduled? How many claims have been filed with the Department by lenders and how much has the Department paid to these banks?

Answer: In total, Russia's current exposure to CCC is approximately \$4 billion; this covers CCC-guaranteed debt for both the former Soviet Union -- FSU -- and Russia itself. Of this, \$1.1 billion of FSU debt would be rescheduled under the agreement signed in Paris on April 2. As of April 19, Russia had defaulted on \$741 million in principal and interest payments coming due to U.S. banks. As of that date, CCC had received 555 claims totaling \$565 million, of which \$382 million had been paid.

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## QUESTIONS SUBMITTED BY SENATOR SPECTER

### USDA REORGANIZATION

Question: Mr. Secretary, I understand that the Department is considering proposals for reorganization. While I support efforts to make the Department of Agriculture more efficient, Pennsylvania farmers have expressed concern that reorganization could reduce services to farmers. According to information provided to me, the methodology used to propose closure of Agricultural Stabilization and Conservation Service (ASCS) can be considered biased against agricultural states in the northeast.

I understand that when considering to close an office, the Department considered the dollar volume of program payments as an indicator. Since it was a disaster year for Pennsylvania and farm program payments were low, it is believed that the use of dollar volume of program payments would not be accurate. Would it not be more accurate to use the average of payments for several years to determine the volume of program payments?

Answer: The study methodology of the USDA - OMB review team used many elements to evaluate the efficiency of an ASCS office, not just the dollar value of the program benefits delivered to ASCS clients.

There were six basic criteria used to evaluate offices. They were the program delivery cost you mentioned, which reflected a cost benefit computation of administrative cost versus dollar value delivered; the service group which included measurements for both actual clients served and number of potential clients the office could serve; a complexity factor for the type and number programs administered by the office; a geographic service area measurement; a factor for the workload intensity of the office which reflected the amount of time the office spent working on program related workload versus purely administrative work such as writing payroll checks and keeping the computer system available for client services; and finally, offices were evaluated in regards to their collocation

status with other USDA agencies reflecting the value to the producer of having one-stop USDA services.

Using several years of data is always more meaningful to the validity of a study. The USDA - OMB review for all the agencies studied had only 1991 data available. However, ASCS had several years of data--1988 through 1992--and performed numerous analyses. It was determined that using the six basic criteria still provided a valid ranking of offices, from the most to least efficient offices.

Question: I understand that USDA used the number of producers who received farm program payments as an indicator of the need for a county ASCS office. This formula, as I understand it, did not take into account the number of programs in which the farmer participated even though each program requires service by the county ASCS office. Because of the nature of farmers in Pennsylvania, a single farmer may participate in many programs. Would it be more accurate of an ASCS office to consider the number of programs administered in addition to the number of farmers served?

Answer: By using the six criteria method, Pennsylvania ASCS county offices received consideration for the number of programs a Pennsylvania farmer participated in four of the six criteria described above. They were: program delivery cost, service group, complexity and workload intensity. These four criteria reflected 85 percent of the evaluative score computed for ASCS county offices.

Question: I understand that the original USDA recommendations to close ASCS offices were not altered to take into consideration the geography and road systems of a state or county. In Pennsylvania, mountains, rivers and roads make it difficult to travel between counties for service even though they seem relatively close. Will the Department consider geographical boundaries when proposing ASCS office closures?

Answer: In November 1992 State Food and Agricultural Councils--FAC--with representatives from ASCS, SCS, FmHA and Extension Service were asked to review the analysis completed by the USDA - OMB review team. They were asked to apply their knowledge of the geographic barriers to the study results.

However, for those counties and States which may have been overlooked somehow, I postponed closing any offices until I had an opportunity to reorganize Washington and closely review the study which led up to the closure list. I asked State FACs to submit implementation plans by April 19, which include information on closing impacts to agency personnel, leases, services and communities. These plans will be thoroughly analyzed before any office is closed.

#### DAIRY

Question: Mr. Secretary, recently a group of dairy farmers of Pennsylvania and other states made a trip to Russia to deliver 20 tons of U.S.-produced dairy products and to discuss trade potential with Russia. It was concluded from these meetings that Russia is very interested in future trade for U.S. dairy products and had particular interest in obtaining U.S. dairy products as part of any U.S. aid package proposed by the Administration. I understand that there exists some 450 million pounds of surplus butter currently in storage by USDA's Commodity Credit Corporation which could be made part of the proposed aid package.



Has the Department of Agriculture considered making dairy products part of the Export Credit Guarantees aid package proposed by the Administration?

Answer: The credit package which the Department intends to make available to Russia will be carried out under the authority of the Food for Progress Act of 1985; these will not be CCC export credit guarantees which have been made available to Russia in the past. With respect to the Food for Progress credit program, the commodity mix has not yet been determined. We will need to discuss the commodity mix with representatives of the Russian Federation before we can be certain what commodities may be included.

However, we can report that we are using the authority of section 416(b) of the Agricultural Act of 1949 to donate considerable quantities CCC-owned butter for use overseas. Between programs for Russia, both those being carried out through private voluntary organizations and bilateral agreements, and similar arrangements being negotiated with countries of Eastern Europe and the former Soviet Union, we have plans to donate half of the total butter in CCC inventory. And new proposals for use of the butter continue to be received by the Department.

#### PESTICIDE USE

Question: Mr. Secretary, pesticide issues have been a major concern for growers in Pennsylvania and the public. In the next couple of months, concerns of the Delaney Clause, pending food safety and minor use pesticide legislation, and the release of the National Academy of Sciences study on children's exposure to pesticides in food will make pesticide issues even more contentious and controversial. How does the Department intend to coordinate policy and programs internally, with Congress, and with other federal agencies to deal effectively with important pesticide issues?

Answer: Internally, the Department has taken a number of actions to improve and coordinate food safety and pesticide policy by strengthening existing programs. We are developing updated, scientifically-based information regarding the safe and effective use of pesticides. We are also continuing to improve the coordination among agencies with the Department. USDA agencies are committed to communicating more effectively about pesticide and food safety issues, particularly in urgent situations that require coordinated responses from USDA.

At the Federal level, we are working closely with the Environmental Protection Agency, and the Food and Drug Administration to address problems in pesticide and food safety regulations. These agencies have undertaken a joint effort to eliminate longstanding inconsistencies in the Federal Food, Drug, and Cosmetic Act. We are also addressing the need to establish a "negligible risk" standard for pesticide residues in foods. This cooperation and exchange of information is outlined in a number of Memoranda of Understanding. We are prepared to address the various pesticide issues with Congress.

Question: Mr. Secretary, Integrated Pest Management (IPM) has enabled growers in Pennsylvania to raise crops in an economical and environmentally sound manner. USDA officials have asserted that thirteen different USDA agencies are working on IPM. Given the importance of IPM programs to

agriculture, what can the Department do to coordinate IPM activities and make them a priority?

Answer: We definitely consider IPM to be a priority. Our 1994 budget proposes increases for research in IPM and biological control through the National Research Initiative and the special grants program. Pest suppression programs conducted by USDA agencies will use these techniques where applicable and Extension Service will continue to provide education to encourage the adoption of improved IPM practices. A working group has been established to assure coordination of IPM activities within the Department and with EPA. Regular meetings of the working group provide a forum to exchange information, coordinate budget and program plans and respond to current issues. A wide range of agencies are represented in the working group, including research, education, technical and financial assistance and land management agencies. I understand that the group has prepared a description of USDA programs in this area that will be published soon.

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## QUESTIONS SUBMITTED BY SENATOR GORTON

### FOOD SAFETY

Question: Mr. Secretary, when you testified before the Senate Agriculture Committee last February, I asked you if you were familiar with a piece of legislation I introduced on food safety -- better known as "backhauling" -- and was subsequently signed into law. At the time of that hearing the regulations for the law are still pending signature by you and the Secretary of Transportation. Although you told me at the hearing that you were not familiar with this law, you did say that you would give Secretary Pena a call and see to it that the regulation was signed. Have you spoken with Secretary Pena and has the backhauling regulation been signed?

Answer: USDA has been working with the Department of Transportation to ensure that USDA's interests are reflected in the regulations they will be promulgating. The Department of Transportation has informed USDA that the rules for implementing "backhauling" are under the Administration's review.

Question: After learning that you intended to conduct a series of nationwide public hearings on food safety reform, I wrote to you and asked that you hold one of these hearings in my state of Washington, in part because I think it's important that you hear from families of E. coli victims. Will you be scheduling one of your food safety reform hearings in Washington state?

Answer: Yes, we are planning to hold a public hearing in Seattle, Washington, this summer.

### GRAZING AND RECREATIONAL USER FEES

Question: The President's original economic plan called for drastic increases in fees to be collected from the use of Western public lands for grazing, mining, timber harvest, etc. In the view of public land users and many of us in the Senate, these increases would have been devastating to vital rural economies

throughout the West. Since then, the President has agreed to work with Congress to draft a more reasonable fee schedule.

The table on page 95 of the Department's budget briefing book includes \$12 million in FY 94 savings from increased grazing and recreation fees on Forest Service lands. Judging from the text on page 56, it appears that \$10 million of these savings are to come from recreation fees and \$2 million from grazing fees.

While this committee does not appropriate for the Forest Service can you tell me how these figures were determined, and whether they correlate to specific increases in grazing fees and recreation fees?

Answer: The \$2 million increase in grazing receipts is based on a fee two and one-half times the current rate implemented over a 4-year period. The \$10 million increase in recreation receipts was based on updated field information from each of the nine Regions showing estimated additional collections for these new recreation sites and nationally designated special areas. The increase was based on additional sites only, not on increased charges at sites where fees are already charged.

Question: Were these figures determined before the President agreed to reevaluate his proposed fee increase?

Answer: These figures were included in the data incorporated in the document A Vision of Change for America which was released on February 17, 1993. While the Administration has indicated that it would be flexible in the way that these increases are adopted, the policy of increasing fees by the amounts indicated has not been changed.

#### APPLES

Question: Mr. Secretary, one of Washington state's most important and successful export commodities is apples. Last year, our state's growers sold some \$300 million in apples abroad. For eighteen years, however, our apple growers have undertaken the frustrating task of trying to gain access to the protected Japanese market, which could offer another \$35 million in annual exports -- although, because the market has always been closed, it's hard to tell how much our growers could sell. Finally, after eight years of intensive efforts, the apple industry and the Japanese Government have resolved all the major technical issues. As you know, however, the Japanese Government has recently stalled on the remaining minor issues, apparently with the hope of keeping its market closed until January 1995.

Last month, I wrote letters to you and Ambassador Kantor asking that USDA and USTR consider these remaining issues to be political trade barriers. I was happy to see that the following week you mentioned this issue with Japanese Ambassador Kuriyama and that last week you and Ambassador Kantor wrote to the Japanese Agriculture Minister. These technical issues must be resolved within the next two months if our apple growers are to win access by January 1994 -- the date on which the Japanese previously agreed. What is the Department of Agriculture doing to open the Japanese market to apples?

Answer: We have worked closely with Japanese plant quarantine officials for more than 10 years to develop a comprehensive, scientific procedure for the export of U.S. apples to the Japanese market. We are now at the point where we have technically proven the safety of U.S. apples and satisfied all of Japan's major plant protection concerns. Unfortunately, Japan has refused to complete the review process or to formalize the import approval.

Japan's actions have moved this issue from a technical to a trade policy problem. As you know, in our letters and meetings with Japanese officials, both U.S. Trade Representative Kantor and I informed the Japanese government that we consider their import ban to be an unjustifiable trade barrier motivated by protectionism. The U.S. food exhibition in Osaka on April 16 allowed us to publicize our position. We also instructed the U.S. Ambassador to carry this message to the various Japanese ministries, and our Embassy filed a formal complaint with Japan's Office of the Trade Ombudsman, an agency empowered to review import access problems under the U.S.-Japan Structural Impediments Initiative. We will continue to press hard on this issue with the intention of gaining approval for imports of U.S. apples in time for entry of the 1993 crop.

#### BELOW-COST TIMBER SALES

Question: The Administration is proposing to eliminate the below-cost sales over the next three years. While this committee does not appropriate funds for the Forest Service does the Administration know what forests face closure in each of the next three years?

Answer: Data from the Timber Sales Information Reporting System (TSPIRS) Statement of Timber Sale Revenues and Expenses for the average of the three-year

Question: In general putting government programs on a pay-as-you-go basis is something of which I approve. The moving of this program to a pay-go approach however is extremely short-sighted and could have a disastrous effect on federal timber dependent communities throughout the country, especially in Eastern Washington. If the administration's proposal is enacted, counties around the country will lose some \$14 million in revenues and some 17,000 people may lose their jobs. Has the Administration considered the economic dislocation inherent in its below cost sales proposal?

Answer: The Administration has considered the matter of economic dislocation, and, for that reason, has proposed to phase in the adjustment over a four-year period and to pursue cost efficiencies to move forests to "above cost" status where possible. This will provide some opportunity for adjustment. Furthermore, many below-cost forests are located in areas where much of the local timber supply comes from private lands. In such situations, we would not expect the effects to be so significant.

Question: The "true" cost of a timber sale is difficult to calculate. The proposal suggests eliminating all sales where the cost to the Forest Service is outweighed by the revenue generated by the sale. Will the Forest Service be required to include in its calculation of "costs" 1) the value of the sale to Forest Service overall plan for managing the specific forest, i.e. salvage sales; 2) the cost to the Forest Service of legal appeals to a sale; 3) the cost to the Forest Service



of enhancing non-timber resources such as enhancement of wildlife, soil, and water resources? If not, why?

Answer: The TSPIRS calculation of costs and revenues includes salvage sale costs and revenues, the costs of appeals and litigation, and the costs of preparing a timber sale that will enhance other resources. The economic benefits to other resources are included in the TSPIRS Economic Report, but not in the TSPIRS Statement of Timber Sale Revenues and Expenses. The Statement of Revenues and Expenses was used to identify below-cost forests. However, the Administration is still reviewing how this report will be utilized in the implementation of the below-cost policy.

Question: I am told by the Washington Association of Wheat Growers that due to dry weather last year, test weights in Washington state wheat crops were well below normal. In fact, very little wheat graded number one in the Northwest due to poor test weights.

I am told that past disaster eligibility has been based upon the quantity of the commodity harvested. Wheat producers affected by low test weights and/or sprout problems were subject to a substantial penalty but were not eligible for relief under disaster assistance if they had a near normal crop yield. It has come to my attention, however, that USDA made an exception to the "quality issue" for corn producers in the state of Michigan.

In light of this, does USDA plan to give Washington state wheat producers who experienced quality problems an exception?

Answer: You are correct that eligibility for disaster payments is generally based on the quantity of the commodity harvested. However, because of unusually severe quality losses in the northern corn belt states, we recently announced that quality losses would be taken into account for the 1992 corn crop when determining eligibility for disaster assistance. Under the new procedures, which are similar to the prior exclusion from production of contaminated corn, ASCS shall exclude low quality production from calculated disaster year production when determining crop loss disaster benefits for the 1992 corn crop. The extension of such adjustments for quality losses to wheat and other program crops is currently under consideration.

Question: If not, why has USDA granted Michigan corn farmers an exception and not Washington wheat growers?

Answer: Our response regarding the 1992 corn crop, an extension of prior procedures used to exclude contaminated corn from disaster year production, reflects the severity of quality losses and the fact that for many corn producers in Michigan and adjacent states, the quantity harvested made them ineligible for assistance although the value of their crop, because of low quality, was practically worthless. As indicated, the further extension of quality adjustment procedures to wheat and other program crops is under review.

It should be noted, however, that to some extent procedures for determining benefits under the disaster program already take into account quality problems for other program and nonprogram crops. For example, standard test weight, instead of the actual test weight, is used to calculate disaster yields. Other adjustments

include the exclusion from calculated production of cotton modules left in the field, exclusion of aflatoxin contaminated corn, and, for nonprogram crops, the exclusion of harvested quantities which because of quality problems are unmarketable.

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## QUESTIONS SUBMITTED BY SENATOR HATFIELD

Question: Mr. Espy, in 1992, wheat producers in the Pacific Northwest were particularly hard hit by wet weather at or near harvest which resulted in loss to wheat quality due to low test-weight and sprout damage. When these same farmers applied for disaster relief, they found that losses due to low test weight and/or sprout damage were not covered by USDA's interpretation of disaster relief.

As an example, a typical Oregon wheat producer in Umatilla County with 1,105 acres of wheat last year suffered sprout damage on 62 percent of his crop (689 acres). That sprout damage resulted in a 28 cent/bushel price discount for a total loss of \$9,640 from sprout alone. In addition, his quality deduction for low test weight came to a total of \$4,188.

Mr. Espy, I understand that you recently decided to expand the disaster coverage for 1993 to corn producers suffering quality losses. Have you considered making such quality loss payments for wheat producers?

Answer: Quality loss payments to producers of wheat and other program crops is under consideration.

Question: Please elaborate on your rationale for distinguishing between the commodities that should receive quality loss payments and those that should not?

Answer: We believe a prompt response was needed to assist producers across the northern corn belt with significant losses due to severe quality losses who, because of the quantity of corn harvested, may not have been eligible for disaster payments. As indicated, the possibility of extending additional assistance for quality losses on wheat and other program crops is currently under consideration.

## SUBCOMMITTEE RECESS

Senator COCHRAN. We appreciate very much your being here and appearing before the committee. I think you have done an excellent job in handling the questions that were put to you by the Senators.

Our next hearing will be held Tuesday, April 27, at 10 a.m., in room SD-138 of the Dirksen Building. We will hear from the Agricultural Stabilization and Conservation Service, the Foreign Agricultural Service, the General Sales Manager, and the Soil Conservation Service.

The subcommittee stands in recess.

Secretary ESPY. Thank you, sir.

[Whereupon, at 4:46 p.m., Tuesday, April 20, the subcommittee was recessed, to reconvene at 10:05 a.m., Tuesday, April 27.]

# **AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1994**

**TUESDAY, APRIL 27, 1993**

**U.S. SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,  
Washington, DC.**

The subcommittee met at 10:05 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Dale Bumpers (chairman) presiding.  
Present: Senators Bumpers, Kohl, Feinstein, Specter, and Bond.

## **DEPARTMENT OF AGRICULTURE**

**STATEMENT OF CHARLES J. O'MARA, ACTING UNDER SECRETARY FOR  
INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS**

**ACCOMPANIED BY STEPHEN B. DEWHURST, BUDGET OFFICER**

**AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE**

**STATEMENT OF BRUCE R. WEBER, ACTING ADMINISTRATOR**

**FOREIGN AGRICULTURAL SERVICE**

**STATEMENT OF RICHARD B. SCHROETER, ACTING ADMINISTRATOR**

**OFFICE OF THE GENERAL SALES MANAGER**

**STATEMENT OF CHRISTOPHER GOLDTHWAIT, ACTING GENERAL  
SALES MANAGER**

**SOIL CONSERVATION SERVICE**

**STATEMENT OF GALEN S. BRIDGE, ACTING CHIEF**

## **OPENING REMARKS**

Senator BUMPERS. Today, we will continue our hearings on the fiscal year 1994 budget for Agriculture, Rural Development, and Related Agencies. We will review the budget for the Agricultural Stabilization and Conservation Service, the Foreign Agricultural Service, the General Sales Manager, and the Soil Conservation Service.

Our witnesses are Charles O'Mara, Acting Under Secretary for International Affairs and Commodity Programs; Bruce Weber, Acting Administrator, ASCS; Richard Schroeter, Acting Administrator, Foreign Agricultural Service; Christopher Goldthwait, Acting Gen-

eral Sales Manager; Galen Bridge, Acting Chief, Soil Conservation Service; and Stephen Dewhurst, Budget Officer, USDA.

Gentlemen, we welcome you all here.

We will cover a wide range of issues today because these agencies represent all the conservation programs, the foreign export programs, as well as the domestic farm programs. Of particular note, the budget proposes to consolidate several of these functions into one agency, the Farm Service Agency.

Gentlemen, we have statements from each of you which will be made a part of the record in full.

Mr. O'Mara, I will ask you to make your oral statement summarizing the budget for each of the agencies, after which we will entertain questions from the subcommittee for each of the agencies. So please proceed.

Mr. O'MARA. Thank you, Mr. Chairman, and good morning. I am pleased to appear before you this morning and to have the opportunity to discuss the fiscal year 1994 budget and program proposals for the International Affairs and Commodity Programs area, along with the conservation programs of the Department.

With me today, and I will introduce them again, sir, is Randy Weber to my right, the Acting Administrator, ASCS; Richard Schroeter to my left, Acting Administrator of the Foreign Agricultural Service; Christopher Goldthwait to his immediate left, who is the Acting General Sales Manager; Galen Bridge to his immediate left, who is the Acting Chief of the Soil Conservation Service; and the only one at this table who is not acting, Mr. Chairman, Mr. Dewhurst, who is the budget officer.

Senator BUMPERS. He is real, he is not just acting? [Laughter.]

Mr. O'Mara, let me ask this question since we have got all these actors on our hands this morning, are all of you nominees for the positions which you are holding right now, or not?

Mr. O'MARA. No, sir; none of us are.

Senator BUMPERS. Are you waiting for somebody to take these positions? What is the deal?

Mr. O'MARA. Well, in fact, tomorrow there will be a hearing on I think five new subcabinet members of the Department, and the rest of the group, I understand, will be 2 to 3 weeks away from being confirmed.

We may not be Oscar type actors, but we will do the best we can this morning, Mr. Chairman.

Senator BUMPERS. You know, we postponed these hearings, No. 1, waiting for the President's budget because we did not have anything to hold a hearing on. And what happens to you people 2, 3 weeks hence? Are you out on the streets?

Mr. O'MARA. No, sir; all of us are career people. And we will continue.

Senator BUMPERS. None of you are political appointees?

Mr. O'MARA. No, sir.

Senator BUMPERS. Well, that is very comforting. Now, proceed, Mr. O'Mara. [Laughter.]

I just wondered if I was going to waste the whole morning on actors. [Laughter.]



## STATEMENT OF CHARLES J. O'MARA

Mr. O'MARA. Thank you, Mr. Chairman. As you have already stated, the statements by each of the administrators providing details on their agency's budget and program proposals for 1994 have already been submitted to the Committee. My statement will briefly summarize the proposals, beginning with proposed farm service agencies, which will include ASCS and SCS and their programs, to be followed by a short discussion of the budget proposals for the international programs of the Department.

Turning to the Farm Service Agency, the President's budget for 1994 proposes the formation of a new FSA or Farm Service Agency to carry out the farm and conservation programs of ASCS and SCS as well as farm and housing programs of the FmHA. The proposal will provide for one-stop shopping by creating a single agency from the current agencies serving farmers at the county and regional level.

The budget requests \$2.3 billion for administrative expenses for the FSA to support approximately 28,000 Federal staff-years and nearly 14,000 county staff-years to carry out all FSA programs. This request consolidates the salaries and administrative expenses of ASCS and FmHA, with additional administrative expenses previously funded through the Commodity Credit Corporation conservation accounts and the FmHA farm and housing programs. The budget proposal reflects savings of \$61 million in 1994 and \$730 million through 1997 due to consolidation of these three agencies into one.

I want to emphasize that while planning for the Farm Service Agency is underway, a detailed structure for the new agency has not yet been formulated. The Department under Secretary Espy's leadership will work with the Congress, including this committee, to determine its ultimate structure. The intent of the proposal was to provide for a streamlined field structure which will improve service to farmers and other clientele, with long-term savings to taxpayers from a more cost-efficient delivery system.

The proposed FSA would assume ASCS's responsibilities for administration of the farm price and income support programs funded by CCC. These programs represent about one-fifth of USDA budget activity. Net outlays for price support related activities for fiscal year 1992 totaled some \$9.7 billion. Outlays for fiscal year 1993 are estimated to increase to \$17.1 billion, reflecting record yields in 1992 for corn and other crops. Higher costs for the cotton program, for export programs, and for advance deficiency payments also contribute to the increase in estimated outlays. Under current legislation, outlays for fiscal year 1994 are projected to decline to \$12.1 billion, reflecting a return to more normal weather and yields for the 1993 crop.

The administration is proposing reductions in CCC spending in fiscal year 1994. Savings from targeting farm program benefits to producers with off-farm incomes less than \$100,000, termination of the honey program, tightening payment limits for wool and mohair producers, and a proposed reduction in the market promotion program, are estimated to reduce CCC net outlays about \$149 million in 1994.

Aside from the targeting proposal described above, proposed reductions in the major farm commodity programs would not take effect until the 1996 crop year. The changes proposed beginning with the 1996 crop include a reduction in payment acreage, termination of income support payments on idled acres, and an increase in the assessments and fees levied on so-called nonprogram commodities—that is dairy, oilseeds, tobacco, sugar, peanuts, wool, and mohair.

The FSA would also incorporate the conservation programs of both ASCS and SCS. It would provide technical assistance to land users, communities, watershed groups, Federal and State agencies, and other cooperators with erosion control and water management problems. It will also administer conservation cost sharing and other programs and continue to work with local conservation districts.

We are requesting \$1.8 billion in 1994 for the Conservation Reserve Program to support the 36.5 million acres already enrolled and the 1 million acres signed up in 1994. This would leave another 1.5 million acres to be enrolled in 1995 to meet the 39-million-acre goal set by the Food, Agriculture, Conservation and Trade Act of 1990.

The 1994 budget also supports the FACT Act's goal of enrolling 1 million acres into the Wetland Reserve Program by the end of 1995. A total of \$370 million is requested for 1994 to fund enrollment of 450,000 acres on a nationwide basis.

The 1994 budget also includes over \$200 million for traditional conservation cost-sharing programs, including the Agricultural Conservation Program, Water Bank Program, the Forestry Incentives Program, the Colorado River Basin Salinity Control Program, and the Great Plains Conservation Program. Additional amounts for technical assistance components of these programs are requested in the FSA salaries and expenses account.

Now turning to the international programs, the Department's budget proposals for fiscal year 1994 are designed to continue most of our international programs and activities near current levels, although some reductions are proposed in keeping with the President's goals of achieving a significant reduction in the Federal deficit. Even with the proposed reductions, the budget provides a total program level of nearly \$8.8 billion for international programs in fiscal 1994.

For the CCC Export Credit Guarantee Programs, the budget provides a total program level of \$5.7 billion, which is unchanged from this year. For the Export Enhancement Program the budget assumes a program level of \$1 billion for EEP in fiscal 1994, and in addition to EEP the budget also assumes that the Department's other export subsidy programs, that is, the Dairy Export Incentive Program and the Sunflower Seed and Cottonseed Oil Assistance Programs, will continue near current levels.

As one of the President's deficit reduction proposals the budget recommends that annual funding for the Market Promotion Program be continued at this year's program level of \$148 million. This is a reduction of \$52 million from the current baseline level, and will result in savings of over \$200 million by the end of fiscal year 1997.

For Public Law 480 food assistance, the budget provides a total program level of just over \$1.6 billion in fiscal 1994, which is expected to provide for total commodity shipments of approximately 6.3 million metric tons. In addition, we expect that our foreign food assistance efforts in 1994 will again be supplemented by overseas donations of CCC-owned commodities under the authority of section 416(b) of the Agricultural Act of 1949, as well as food assistance made available under the Food for Progress Act of 1985.

For the Foreign Agricultural Service and the Office of the General Sales Manager, the budget requests a combined program level of \$118 million for 1994. The budget proposes two major changes in agency funding. First, the budget includes funding of \$8.2 million for the cost of ADP equipment and maintaining the CCC computer facility which, in the past, has been operated jointly by the Foreign Agricultural Service and ASCS and funded by CCC.

Second, the budget proposes that funding for FAS's contribution to the Foreign Market Development Cooperator Program be reduced by \$10 million or approximately one-third from its current level. Under this proposal, one of the President's deficit reduction recommendations, financial support for the overseas expenses of participating organizations will be scaled back in established markets and program resources will increasingly be focused on participant expansion into areas of the world where market development prospects are most promising.

For the Office of International Cooperation and Development, the budget provides a total program level of \$45.8 million. The budget requests direct appropriated funding of \$7.3 million, while an additional \$38.5 million in funding is expected to be made available through trust funds and reimbursable agreements.

Mr. Chairman, this concludes my statement. We would be happy to listen to your comments from members of the subcommittee and will respond to any questions that you or your colleagues may have.

#### PREPARED STATEMENTS

Senator BUMPERS. Thank you very much, Mr. O'Mara. Your biographical information and prepared statement will be made part of the record along with those of Mr. Weber, Mr. Schroeter, and Mr. Bridge, and the prepared statements of Mr. Goldthwait and Mr. Miranda.

[The statements follow:]

#### STATEMENT OF CHARLES J. O'MARA

Mr. Chairman, Members of the Committee, I am pleased to appear before you this morning and to have the opportunity to discuss the fiscal year 1994 budget and program proposals for the international affairs and commodity programs area, along with the conservation programs of the Department. Accompanying me today are Randy Weber, Acting Administrator of the Agricultural Stabilization and Conservation Service (ASCS); Richard Schroeter, Acting Administrator of the Foreign Agricultural Service (FAS); Christopher Goldthwait, the Acting General Sales Manager; Galen Bridge, Acting Chief of the Soil Conservation Service (SCS); and Steve Dewhurst, of the Office of Budget and Program Analysis (OBPA).

Statements by each of these Administrators, providing details on their agencies' budget and program proposals for 1994, have already been submitted to the Committee. My statement will summarize the proposals beginning with the proposed Farm Service Agency (FSA) which will include ASCS and SCS and their programs.



The FSA will also include Farmers Home Administration (FmHA) programs which we will not cover. My statement will conclude with a discussion of the budget proposals for the international programs of the Department. We will be pleased to respond to your questions at the conclusion of my statement.

#### FARM SERVICE AGENCY

The President's budget for 1994 proposes the formation of a new FSA to carry out the farm and conservation programs of ASCS and SCS, as well as farm and housing programs of FmHA. The proposal will provide for "one-stop shopping" by creating a single agency from the current agencies serving farmers at the county and regional level. The budget requests \$2.3 billion for administrative expenses for the FSA to support 28,181 Federal staff years and 13,988 county (non-Federal) staff years to carry out all the FSA programs. This request consolidates the salaries and administrative expenses of ASCS and FmHA, with additional administrative expenses previously funded through the Commodity Credit Corporation (CCC), conservation accounts, and FmHA farm and housing programs. The 1994 budget reflects savings of \$61 million in 1994 and \$735 million through 1997 due to consolidation of three agencies into one.

I want to emphasize that, while planning for the FSA is underway, a detailed structure for the new agency has not yet been formulated. The Department, under Secretary Espy's leadership, would like to work with the Congress, including this Committee, in determining the ultimate structure for the FSA. The intent of the proposal is to provide for a streamlined field structure which can improve service to farmers and other clientele with long-term savings to taxpayers from a more cost-efficient delivery system.

While the process of designing and implementing a plan to streamline the field based farm agencies into a new Farm Service Agency will be challenging, we believe the long-term potential for improved service as well as cost savings will make it worthwhile.

#### PRICE AND INCOME SUPPORT PROGRAMS FOR FARMERS

The proposed FSA would assume ASCS's responsibilities for administration of the farm price and income support programs funded by CCC. These programs represent about one-fifth of USDA budget activity. Net outlays for price support and related activities for fiscal year 1992 totaled \$9.7 billion. Outlays for fiscal year 1993 are estimated to increase to \$17.1 billion, reflecting record yields in 1992 for corn and other crops. Higher costs for the cotton program, for export programs, and for advance deficiency payments also contribute to the increase in estimated outlays. Under current legislation, outlays for fiscal year 1994 are projected to decline to \$12.1 billion, reflecting a return to more normal weather and yields for the 1993 crop.

The Administration is proposing reductions in CCC spending starting in fiscal year 1994. Savings from targeting farm program benefits to producers with off-farm incomes less than \$100,000, termination of the honey program, tightening payment limits for wool and mohair producers, combined with a proposed \$52 million reduction in the Market Promotion Program, are estimated to reduce CCC net outlays about \$149 million in fiscal year 1994.

Aside from the targeting proposal described above, proposed reductions in the major farm commodity programs would not take effect until the 1996 crop year. The changes proposed to begin with the 1996 crop include a reduction in payment acreage (triple base), termination of income support payments on idled acres (0/50/92), and an increase in the assessments and fees levied on "nonprogram" commodities (dairy, oilseeds, tobacco, sugar, peanuts, wool and mohair).

With regard to 1993 crop programs, signup will close on April 30. Signup for the disaster payment program closed February 12, although producers with quality losses on the 1992 corn crop have until May 7 to apply for disaster payment assistance.

#### CONSERVATION PROGRAMS

The FSA would also incorporate the conservation programs of both ASCS and SCS. It will provide technical assistance to land users, communities, watershed groups, Federal and State agencies and other cooperators with erosion control and water management problems. It will also administer conservation cost-sharing and other programs and continue to work with local conservation districts.

The Department has historically encouraged voluntary conservation measures by farmers. The last two farm bills strengthened our approaches in dealing with crop-



land erosion, wetland conservation and water quality improvement. We expect to continue making progress in these areas.

Currently, the Department is devoting considerable resources towards helping farmers implement conservation compliance plans on highly erodible cropland. The conservation programs of the Food Security Act of 1985 (the 1985 Act) were enacted to provide consistency between conservation programs and other farm programs by making eligibility for program benefits contingent upon the implementation of a conservation compliance plan on highly erodible cropland. To continue receiving these benefits, producers must fully implement their plan by December 31, 1994, according to a schedule, i.e., "actively applying" the plan each year until it is fully implemented. To date, SCS has assisted in developing 1.6 million plans covering 140 million acres of highly erodible cropland, or about one-third of the total cropland in the country. About 58 percent of the planned acreage is now protected with fully implemented conservation practices. Additional plans are partially implemented and progress is on schedule. Current projections are that fully implemented compliance plans, combined with the grass and trees planted on land enrolled in the Conservation Reserve Program (CRP), will reduce soil erosion on highly erodible cropland in the United States by about 65 percent from pre-compliance levels.

As you know, SCS has responsibility for identifying and delineating wetlands on agricultural lands to support the administration of the swampbuster provisions of the 1985 Act. Prior to May 1991, about 65 percent of the necessary wetland determinations had been made. This has involved about 16.2 million acres of wetlands. Because of the uncertainty about Federal wetland delineation criteria, the wetland determination activity has been suspended since 1991.

We are requesting \$1.8 billion in 1994 for CRP to support the 36.5 million acres already enrolled and a one million acre signup in 1994. This would leave another 1.5 million acres to be enrolled in 1995 to meet the 39 million acre goal set by the Food, Agriculture, Conservation, and Trade Act of 1990 (FACT Act). The 1994 budget also supports the FACT Act's goal of enrolling one million acres into the Wetlands Reserve Program by the end of 1995. A total of \$370 million is requested for 1994 to fund enrollment of 450,000 acres on a nationwide basis.

The 1994 budget includes over \$200 million for traditional conservation cost-share programs including the Agricultural Conservation Program (ACP), Water Bank Program, Forestry Incentive Program, Colorado River Salinity Control Program, and the Great Plains Conservation Program. Additional amounts for the technical assistance components of these programs are requested in the FSA salaries and expenses account.

We will now turn to the international programs which are administered by FAS and OICD. These programs are not proposed to come under the jurisdiction of the Farm Service Agency.

#### INTERNATIONAL PROGRAMS

Mr. Chairman, the Department continues its long-term commitment to export expansion and the pursuit of global market opportunities for America's farmers and ranchers—and we believe our efforts are providing dividends. U.S. agricultural exports have increased in 5 of the last 6 years. During fiscal year 1992, we achieved the second highest annual level on record for exports of our agricultural commodities and products—supported by the Department's approximately \$9.0 billion of export promotion, market development, and food assistance programs. For fiscal year 1993, the Department's current estimate is that U.S. agricultural exports will reach \$42.5 billion, just above last year's level.

Despite these positive developments, U.S. agriculture continues to face a number of serious challenges on the international front. For example, our exporters continue to face protectionist trade barriers, unfair trade practices, and self-sufficiency policies around the world. Under Secretary Espy's direction, we intend to move forcefully to counter unfair competition and to convince our trading partners to reform their policies. In this regard, we continue to work towards an agreement in the Uruguay Round of multilateral trade negotiations which will provide expanded export opportunities for our farmers and ranchers through reduced barriers to trade and greater disciplines in the use of subsidies.

We have also been actively involved in negotiating the agricultural provisions of the North American Free Trade Agreement, including the current negotiations with Mexico and Canada of supplemental side agreements on labor, the environment, and import surges. Implementation of this agreement will provide significant new export opportunities for U.S. agriculture, particularly with Mexico which is now our third largest single country export market, by eliminating all tariffs, quotas, and licenses that are barriers to trade between our two countries.

Another challenge we face is the import purchasing problems of Russia and other states of the former Soviet Union which have impeded U.S. agricultural exports to these important markets. Two recent developments are important in this regard. The first was the announcement at the Vancouver Summit of a proposed \$700 million Food for Progress credit agreement with the Government of Russia to assist with its commodity import needs through the remainder of this fiscal year.

The second is the rescheduling agreement signed in Paris in advance of the Summit between the Russian Federation and 19 creditor countries to reschedule a significant portion of the foreign debt of the former Soviet Union. This agreement will provide much needed relief to Russia in meeting its severe economic and foreign exchange difficulties while also boosting its economic reform measures. While these are important first steps, we expect these issues will continue to require a significant amount of our attention and efforts during the next fiscal year as well.

The Department's budget proposals for fiscal year 1994 are designed to continue most of our international programs and activities near current levels, although some reductions are proposed in keeping with the President's goal of achieving a significant reduction in the Federal deficit. Even with the proposed reductions, the budget provides a total program level of nearly \$8.8 billion for international programs in fiscal year 1994.

For the CCC export credit guarantee programs, the budget provides a total program level of \$5.7 billion, which is unchanged from this year. These programs are designed to expand overseas sales of U.S. agricultural commodities and products by facilitating the extension of commercial export financing. Their importance for U.S. agriculture was demonstrated in fiscal year 1992, when a record of nearly \$5.7 billion of export sales were registered under the programs; this represented over 13 percent of total U.S. agricultural exports that year.

The Export Enhancement Program (EEP) has made an important contribution to our trade negotiating strategy and objectives by challenging the unfair trading practices of competitor countries and by encouraging other countries to negotiate seriously on international agricultural trade reform. The budget assumes a program level of \$1.0 billion for EEP in fiscal year 1994. While this is somewhat lower than this year's level, it is consistent with the level of EEP bonuses awarded in fiscal year 1992 and prior years. In addition to EEP, the budget also assumes that the Department's other export subsidy programs—the Dairy Export Incentive Program and the Sunflowerseed and Cottonseed Oil Assistance Programs—will continue near current levels.

As one of the President's deficit reduction proposals, the budget recommends that annual funding for the Market Promotion Program be continued at this year's program level of \$148 million. This is a reduction of \$52 million from the current baseline level and will result in savings of over \$200 million by the end of fiscal year 1997. The proposal will contribute not only to reducing the Federal deficit but is also intended to ensure the most effective use of available program resources.

For Public Law 480 food assistance, the budget provides a total program level of just over \$1.6 billion in fiscal year 1994, which is expected to provide for total commodity shipments of approximately 6.3 million metric tons. While the projected tonnage level is somewhat lower than the current estimated level for this year, it is consistent with the average annual level of Public Law 480 commodity assistance of the past 5 years. In addition, we expect that our food assistance efforts in fiscal year 1994 will again be supplemented by overseas donations of CCC-owned commodities under the authority of section 416(b) of the Agricultural Act of 1949, as well as food assistance made available under the Food for Progress Act of 1985.

For the Foreign Agricultural Service (FAS) and the Office of the General Sales Manager, the budget requests a combined program level of \$118.2 million for fiscal year 1994. The budget proposes two major changes in agency funding. First, the budget includes funding of \$8.2 million for the costs of ADP equipment and maintenance the CCC Computer Facility, which in the past has been operated jointly by FAS and ASCS and funded by CCC. FAS will assume responsibility for operation of the facility in 1994, and funding for its annual operating costs will now be included in the FAS appropriations request.

Second, the budget proposes that funding for FAS's contribution to the Foreign Market Development Cooperator Program be reduced by \$10 million or approximately one-third from its current level. Under this proposal, which is one of the President's deficit reduction recommendations, financial support for the overseas expenses of participating organizations will be scaled back in established markets, and program resources will increasingly be focused on participant expansion into areas of the world where market development prospects are most promising.

For the Office of International Cooperation and Development (OICD), the budget provides a total program level of \$45.8 million. The budget requests direct appro-



priated funding of \$7.3 million, while an additional \$38.5 million in funding is expected to be made available through trust funds and reimbursable agreements. Under these agreements, OICD carries out technical assistance, training, and research activities overseas on behalf of the Agency for International Development, foreign governments, and international organizations. In addition, OICD assures increasing links between the U.S. scientific community and similar communities in other countries. These efforts focus on joint work in areas such as biological and pest control and natural resource management.

This concludes my statement, Mr. Chairman. We would now be pleased to answer the Subcommittee members' questions regarding our programs and budget requests.

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#### STATEMENT OF BRUCE R. WEBER

Mr. Chairman and Members of the Subcommittee, I am pleased to be here today to discuss the Agricultural Stabilization and Conservation Service. I will begin by providing a brief overview of the agency and will then address administrative support, the conservation programs, and the Commodity Credit Corporation.

#### ASCS OVERVIEW

The Agricultural Stabilization and Conservation Service—ASCS—was established in June 1961 by the Secretary of Agriculture under the authority of the Reorganization Act of 1949, as amended. It is the successor to prior agencies that had administered farm programs since the 1930's.

#### MISSION

ASCS provides service to American producers and the American public through the administration of farm commodity, conservation, emergency, and domestic and international food assistance programs.

As the agency name implies, our objectives are twofold: stabilization and conservation. In its stabilization role, ASCS administers Commodity Credit Corporation—CCC—programs, including production adjustment programs, which provide producers income support, and which protect against extreme fluctuations in the marketplace. In its conservation role, ASCS carries out a variety of programs to assist producers in applying conservation measures needed to preserve the long-range productive capacity of our soil and water resources, and to protect highly erodible land, wetlands, and other environmentally sensitive lands. The stabilization and conservation objectives are united in serving the public interest by helping to protect this Nation's ability to produce food and fiber at reasonable prices for current and future generations while protecting the environment.

#### ORGANIZATIONAL STRUCTURE

As you know, ASCS is one of the three agencies that is to be merged into the new Farm Service Agency under the proposed reorganization of the Department of Agriculture. Details of that merger are in the planning stage. As it currently stands, however, ASCS delivers its programs nationwide through a system of State and county offices, in addition to a number of field offices and the Washington headquarters.

State and county ASC committees make decisions on the local administration of the various programs entrusted to ASCS that deal directly with the farmer. The county committees, whose members are elected by local farmers, also provide advice and recommendations regarding program plans and policies. There are currently 50 State committees, one Caribbean Area committee, and 3,053 county committees. Day-to-day program operations such as signups are conducted by the employees of the 2,775 ASCS county offices. State offices provide guidance and management oversight of their respective county offices.

Additional ASCS field offices are located in Salt Lake City, Utah, and Kansas City, Missouri. The Aerial Photography Field Office in Salt Lake City provides aerial photography products for ASCS, other agencies within and outside of USDA, and the public. The Kansas City Commodity Office is responsible for the acquisition, handling, storage, processing, and disposal of commodities to fulfill CCC program commitments, and the examination of farm commodity warehouses. The Kansas City Management Office is the focal point for agency computer system applications development and programming, as well as records management and other functions, while the Kansas City Financial Management Office handles centralized ASCS and

CCC program accounting, debt management, commodity program claims, and related responsibilities.

ASCS is headed by an Administrator, Associate Administrator, and four Deputy Administrators—who are located in Washington headquarters and are supported by a number of divisions and staffs which provide overall program administration and oversight, as well as personnel, property, financial, and other support services.

#### ADMINISTRATIVE SUPPORT

Expenses for administering ASCS and CCC programs and other functions assigned to the Agency are currently funded by a consolidated Salaries and Expenses Account, which was established by the Agricultural Appropriations Act of 1963 to simplify the budgetary and accounting requirements and recordkeeping of the agency. This account is financed largely through direct appropriation, user fees, and various transfers, advances, and reimbursements from other sources, which would be incorporated within the FSA. For fiscal year 1994, the consolidated administrative expense account of the FSA is \$2.3 billion and would support a total of 28,181 Federal staff years and 13,988 county (non-Federal) staff years needed to carry out all FSA programs.

The direct appropriation for ASCS Salaries and Expenses for fiscal year 1993 is \$712.7 million. Our current estimate of staff years that will be used in fiscal year 1993 in carrying out our direct responsibilities and in servicing other Agencies of the Department, is 3,349 Federal office staff years and 15,476 county office staff years, for an agency total of 18,825 staff years.

#### CONSERVATION

The 1994 President's Budget continues under the Farm Service Agency all the conservation programs currently administered by ASCS. Technical assistance funding for these programs is proposed to be funded through the consolidated Salaries and Expenses account of the FSA. Thus, the request for the conservation program accounts reflects primarily cost-sharing assistance only.

#### CONSERVATION RESERVE PROGRAM

The Conservation Reserve Program—CRP—was mandated by the Food Security Act of 1985 and was extended and modified by the Food, Agriculture, Conservation, and Trade Act of 1990 (FACT Act). Its primary objective is to help farmers achieve the environmental benefits of reduced erosion and improved water quality by establishing permanent cover on highly erodible or environmentally sensitive cropland.

Participants enter into a contract with ASCS in which they agree to take land out of production for 10 to 15 years and install permanent cover. In return, USDA provides annual rental payments, one-time payments for half the cost of the cover, and technical assistance.

The FACT Act combined the CRP along with the newly authorized Wetlands Reserve Program into the Environmental Conservation Acreage Reserve Program—ECARP—with an overall participation goal of 40–45 million acres, including those already enrolled in the CRP. The law specifies that to the extent practicable, the ECARP enrollment should include 1 million acres under the Wetlands Reserve Program, leaving a minimum of 39 million acres under the CRP.

At the present time, total CRP enrollment is about 36.5 million acres, including 1.1 million acres enrolled in 1992 during the twelfth signup. No signup is being held in 1993 since the 1993 Appropriations Act prohibits it. However, we are making payments due on the previously enrolled acres—\$1.7 billion for rental payments, \$33.8 million for vegetative cover costs, and \$6.4 million for technical assistance.

The requested 1994 program level of \$1.83 billion would provide \$1.81 billion for rental payments and \$15.6 million for cover costs. The Budget proposes to enroll 1 million acres in fiscal year 1994, on which rental payments would begin to come due in fiscal year 1996.

#### WETLANDS RESERVE PROGRAM

As I mentioned, the Wetlands Reserve Program—WRP—was authorized by the FACT Act as a component of the ECARP. The primary objectives are to preserve and restore wetlands, improve wildlife habitat, and protect migratory waterfowl. Program participants receive payments in exchange for granting a conservation easement on eligible acres. The WRP also shares with landowners the cost of restoration measures.



In fiscal year 1992, funds were provided to operate a pilot program of up to 50,000 acres. The program was implemented in nine pilot States, and 49,888 acres have been tentatively accepted for enrollment. During the June 1992 signup, landowners demonstrated substantial interest in the restoration and protection of agricultural wetlands through permanent easements by submitting bids for about 249,000 acres. In February of this year, as directed, the Department submitted to Congress a report on the pilot program.

Congress prohibited additional signups in 1993 and provided no funding for 1993. However, program activity is taking place in 1993 as ASCS works with applicants to complete the lengthy process involved in establishing easements on acres accepted in the 1992 pilot program.

The 1994 Budget would put the program on track for meeting its million-acre goal by enrolling 450,000 acres nationwide during 1994. The requested funding of \$370.3 million would provide \$334.3 million for easement payments, \$29.3 million for restoration costs, and \$6.8 million for easement overhead costs.

#### AGRICULTURAL CONSERVATION PROGRAM

The Agricultural Conservation Program—ACP—shares with producers the cost of carrying out soil and water conservation and water quality measures on agricultural land. Nationwide in scope, the program is available to all farmers and ranchers who establish the need for cost-share assistance in solving a resource conservation problem. The program may pay up to 75 percent of the cost of eligible practices. Technical assistance is provided by the Soil Conservation Service and the Forest Service.

Fiscal year 1993 funding is \$194.4 million, which includes allocations to States of \$153 million for annual-type conservation practices, \$20 million for long-term agreements, \$15 million for Water Quality Incentive Projects of the type authorized under section 1439 of the FACT Act, and \$5 million for other high priority water quality activities.

The fiscal year 1994 request of \$150.4 million would provide \$117.4 million for annual agreements, \$14 million for long-term agreements, and \$19 million for Water Quality Incentive Projects. Technical assistance funding is included in the request for the consolidated Salaries and Expenses account of the Farm Service Agency.

#### EMERGENCY CONSERVATION PROGRAM

The Emergency Conservation Program—ECP—assists producers in rehabilitating farmland damaged by natural disaster and in carrying out emergency water conservation measures during periods of severe drought. The program shares the cost of practices to restore the land to its productive capacity as it existed prior to the disaster and does not address pre-existing conservation problems.

As might be expected, funding needs for this program vary widely from year to year, depending upon the occurrence of natural disasters, which cannot be predicted with any accuracy. The fiscal year 1993 appropriation provided \$3 million for the regular, or ongoing program. So far this fiscal year, about \$9 million, including recoveries of prior year funds, has been allocated to States to repair damage from drought, flood, tornadoes, and wildfires. However, as you know, special supplemental funding of \$27 million was appropriated to help producers recover from the devastation caused by Hurricanes Andrew and Iniki and Typhoon Omar last fiscal year. The supplemental appropriation made \$16.5 million immediately available and the remaining \$10.5 million in contingency funding was released December 30, 1992. The full \$27 million has been allocated to the four affected States and Guam.

The 1994 Budget requests \$2.8 million for this program.

#### WATER BANK PROGRAM

The purposes of the Water Bank Program—WBP—are to conserve water and preserve and improve habitat for migratory waterfowl and other wildlife through long-term agreements with landowners for the protection of wetlands. The program provides additional environmental benefits such as reducing runoff, contributing to flood control, improving water quality, improving subsurface moisture, and enhancing the natural beauty of the landscape.

Under the program, the Secretary enters into renewable 10-year agreements with owners or operators of eligible wetlands in authorized States. The participants agree not to drain, burn, fill, or otherwise destroy the enrolled wetlands, and in exchange receive annual rental payments. Funding of \$18.6 million in fiscal year 1993 will bring about 109,000 acres under agreement.

The \$17.1 million requested for fiscal year 1994 would provide for agreements on about 106,000 acres.

## COLORADO RIVER BASIN SALINITY CONTROL PROGRAM

The Colorado River Basin Salinity Control Program is designed to reduce irrigated agriculture's contribution to the salt loading of the upper Colorado River and thus to support the nation's commitment to the 1973 International Boundary and Water Commission Agreement concerning the quality of water delivered downstream to users in the U.S. and Mexico. The program is authorized in the seven Basin States Arizona, California, Colorado, Nevada, New Mexico, Utah, and Wyoming.

The program is a coordinated effort among USDA agencies. SCS provides participants with technical assistance to identify salt source areas, develop conservation plans, and monitor and evaluate the results. ASCS provides cost-sharing assistance for installation of conservation practices. The Extension Service collaborates with the Agricultural Research Service and Cooperative State Research Service on research, education, and demonstration activities.

In fiscal year 1993, funding of \$13.8 million is being used to support ongoing projects in Colorado, Utah, and Wyoming, and a new project in Nevada. In fiscal year 1994, the request of \$8.5 million would provide cost-sharing for these projects.

## FORESTRY INCENTIVES PROGRAM

The purpose of the Forestry Incentives Program—FIP—is to encourage the development, management, and protection of nonindustrial, private forest lands to increase the production of timber and enhance other forest resources. The program provides annual and long-term cost-sharing agreements with landowners in 47 States as well as technical assistance for planting trees on eligible land or improving a stand of trees.

The fiscal year 1993 funding level of \$12.4 million will assist in planting an estimated 106.5 million trees as well as providing timberstand improvement on about 32,000 acres. The 1994 Budget proposes \$11.5 million for cost-sharing of a comparable amount of tree planting and timberstand improvement.

## DAIRY INDEMNITY PROGRAM

Under the Dairy Indemnity Program, ASCS compensates dairy farmers and manufacturers who, through no fault of their own, suffer income losses on milk or milk products removed from commercial markets due to residues of certain chemicals or other toxic substances. Payees are required to reimburse the Government if they recover their losses through other sources such as litigation. To date, claims totaling approximately \$85,000 have been authorized for payment during fiscal year 1993. The 1994 Budget requests \$5,000 for this program.

## COMMODITY CREDIT CORPORATION

## GENERAL

Farm commodity programs and selected export programs such as the CCC Export Guarantee program are financed through the Commodity Credit Corporation, a government entity for which ASCS provides operating personnel. The Corporation is managed by a Board of Directors, subject to the general supervision and direction of the Secretary of Agriculture. The Board consists of seven members, in addition to the Secretary, who are appointed by the President of the United States by and with the advice and consent of the Senate. The members of the Board and the Corporation's officers all are officials of the U.S. Department of Agriculture. Funds are borrowed by the Corporation from the Treasury to finance CCC programs, and the Corporation has the authority to have outstanding Treasury borrowings of up to \$30 billion at any one time. Commodity support operations, handled primarily through loan, purchase and payment programs, include those for wheat, corn, soybeans, minor oilseed crops, cotton (upland and extra long staple), rice, tobacco, milk and milk products, wool, mohair, barley, oats, sorghum, rye, honey, peanuts, and sugar.

## COMMODITY PROGRAM OUTLAYS

CCC total net outlays in fiscal year 1992 were \$9.7 billion, a decrease of \$0.4 billion from fiscal year 1991 outlays of \$10.1 billion. Fiscal year 1993 outlays generally relate to the 1992 crops. Net outlays for fiscal year 1993 are projected at \$17.1 billion, an increase of \$7.4 billion over fiscal year 1992 outlays. Due to large 1992 crop year supplies, expenditures for feedgrains, wheat and upland cotton are considerably higher in fiscal year 1993. Higher export guarantee claims paid also contribute to the increase in estimated fiscal year 1993 outlays. For fiscal year 1994, outlays

are expected to decline to \$12.1 billion, assuming more normal weather and yields for the 1993 crop.

#### REIMBURSEMENT FOR REALIZED LOSSES

The 1994 budget for the Commodity Credit Corporation reflects an estimated need for \$20.9 billion to reimburse the Commodity Credit Corporation for its losses. This is an increase of \$11.7 billion from the fiscal year 1993 reimbursement to the Corporation. This increase is necessary in order to address the growing balance of unreimbursed CCC losses, and includes \$2.9 billion for payment to Treasury due to a retroactive GAO determination regarding the fiscal year 1988 "Operating Expenses" appropriation to CCC.

We are again proposing that CCC be reimbursed for its losses through the current indefinite appropriation authority authorized by existing law, but without any cap. CCC should have the flexibility to request funds as needed from Treasury in order to avoid operating disruptions in the future.

In the 1994 Budget, we are proposing to fund certain administrative expenses, largely for computer equipment, in the FSA appropriation, rather than the CCC.

#### APPROPRIATION LANGUAGE CHANGES

Several other CCC appropriation language changes are proposed in the budget:—We are proposing the deletion of existing appropriation language pertaining to floors on export program levels. Minimum export credit program levels are specified in the FACT Act.

—For fiscal year 1994, we are proposing to increase the spending cap for hazardous waste management costs from \$3,000,000 to \$4,000,000, based on a projected change in the operations and maintenance phase of CCC's hazardous waste management program. All other CCC-related hazardous waste management costs are included in the USDA Hazardous Waste Management appropriation.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer your questions and those of the other Subcommittee Members.

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#### STATEMENT OF RICHARD B. SCHROETER

Mr. Chairman, members of the Subcommittee, I appreciate this opportunity to meet with you today to discuss the work of the Foreign Agricultural Service (FAS).

Our basic mission, to put it very simply, is EXPANDING EXPORTS. We serve to advance and reinforce the efforts of the private sector to sell U.S. food and agricultural products overseas. In so serving, we directly support the mission of Secretary Espy for the U.S. Department of Agriculture: To enhance the income of U.S. farmers at minimum cost to taxpayers, and to promote the economic health of rural America.

Exports generate one dollar in every five earned by U.S. farmers from the marketplace. And each dollar in export earnings generates another \$1.40 in business off the farm. From an employment perspective, an estimated 860,000 full-time jobs—including nearly 545,000 jobs off the farm—hinge on the health of U.S. agricultural exports each year. In other words, a vibrant export sector is crucial not only to the health of U.S. agriculture, but to the health of the entire U.S. economy.

U.S. agriculture also continues to consistently to show a trade surplus. Net agricultural exports of \$18 billion in 1992 helped to partially offset a \$94 billion deficit in nonfarm trade.

In my testimony today, I will devote some time to discussing FAS program accomplishments. However, I want to focus most of my attention on the changing priorities for the agency and particularly on the challenges we face in the future.

The Acting General Sales Manager, who is also here today, will discuss the specifics of the export programs he administers, which include the foreign food aid, export credit guarantee, and export enhancement programs.

#### MARKET DEVELOPMENT

FAS' market development programs include the Market Promotion Program (MPP), the Cooperator Market Development Program, the Export Enhancement Program (EEP), Sunflower Oil Assistance Program (SOAP), Cottonseed Oil Assistance Program (SOAP), Dairy Export Incentive Program (DEIP), Public Law 480 Title I Concessional Credit Program, and the CCC Export Credit Guarantee Programs.



These programs affect the livelihood of virtually every U.S. farmer, since part of practically every crop grown in the United States is exported. FAS uses all of its export programs aggressively to ensure U.S. farmers and exporters are able not only to maintain a high level of sales in established markets, but also to capitalize on emerging market opportunities.

Some of these programs—such as the MPP, EEP, DEIP, SOAP, and COAP—are relatively new. They were implemented in the mid-1980's in response to changing trade conditions and a mandate from the Congress. Other efforts, such as the Cooperator and Public Law 480 programs, have evolved over the past 40 years.

Taking on these new, multi-million dollar programs has dramatically changed the nature of the agency in recent years. In essence, we have shifted far more in the direction of a program implementation agency, and this shift has not been without its problems.

For example, the combined export program portfolio of FAS and the Office of the General Sales Manager was approximately \$9 billion in fiscal year 1992, almost twice the program size prior to implementation of the Food Security Act of 1985. The consequences of trying to do too much, too quickly, with too few resources to maintain effective program controls were a number of problems which have been addressed in various GAO and OIG audits and reviews.

I will not attempt to minimize those problems. No one in the agency is impressed that in the past four years USDA's Office of the Inspector General made 92 recommendations to the agency on ways to strengthen program management. The agency has since successfully implemented 90 of those recommendations, and we have also implemented a number of other management improvements recommended by the General Accounting Office.

However, we are working to ensure there will be a need for far fewer GAO and OIG audits and investigations in the future because of increased confidence in our management controls and anticipatory actions. I can, with certainty, assure you that FAS will continue to make sound, effective management of USDA's export programs our highest priority.

I would like now to shift to some discussion of the programs themselves, and how they help to fulfill the FAS export mission. I will limit my remarks to the Cooperator Program and MPP program. The other programs will be discussed in detail in the General Sales Manager's statement.

#### MARKET PROMOTION PROGRAM

The MPP was mandated by the FACT Act of 1990 to replace the Targeted Export Assistance (TEA) program. The TEA program, and now the MPP, work to expand outreach of our market development activities, especially for high-value products.

The MPP encourages the development, maintenance, and expansion of commercial export markets for agricultural commodities. Under MPP, we use funds from the Commodity Credit Corporation to partially reimburse program participants for market development projects that meet specific program criteria.

For fiscal 1993, USDA has allocated over \$147 million under the MPP to private sector organizations to conduct promotions for a wide variety of products in more than 100 countries. We have also allocated \$1 million for program evaluation—to make sure that we are getting "the most bang for our bucks."

We do know that the program has helped to more than double U.S. exports of consumer-ready products from \$5.2 billion in 1985, the year before the program started, to \$13.5 billion in fiscal 1992.

The program has been used, for example, to promote sales of pistachios and beef to Japan; salmon, cranberries and peanuts to the United Kingdom; grape juice to Taiwan; canned corn to Korea; peaches to Singapore; wood products to Mexico; rice to the former Soviet Union; and the list goes on and on.

Overall, the MPP and the TEA program before it have been extremely useful tools in fulfilling our mandate to help boost U.S. agricultural exports.

#### COOPERATOR PROGRAM

The MPP has built on the success of our long-standing market development activities with the private sector. The Cooperator Market Development Program has been the backbone of FAS' efforts in this area almost since the agency came into existence in 1953. Its successes are the result of a unique partnership between U.S. agricultural organizations and USDA. We have combined forces and pooled our technical and financial resources to carry out a wide variety of foreign market development projects.

In new markets, activities include market research, product demonstrations, buyer educational activities, working with government and trade officials to solicit



business, and pressing on market access issues. In more developed markets, activities include technical trade servicing to help buyers choose the right U.S. product and use it efficiently, joint promotions with foreign customers, media contacts, public relations, and educational activities.

For example, in 1992, cooperators held seminars in Mexico on the quality and wholesomeness of U.S. poultry and on U.S. peanut quality-control issues. Both activities led to significant increases in exports for U.S. producers in the Mexican market.

In the United Kingdom, three years of trade servicing by another cooperator group culminated in the opening of the U.K. market to imports of standard American lumber sizes for use in roofing systems.

#### MARKET INFORMATION

Let me turn to another vital aspect of the FAS mission: our job of collecting, analyzing, and disseminating information that will alert U.S. farmers to the needs of consumers overseas, will point U.S. exporters towards emerging market opportunities, and will enable FAS and other USDA analysts to assess and project trade flows and economic trends.

In 1992, our overseas staff submitted nearly 5,000 reports to help USDA keep the U.S. agricultural sector posted on global supply, demand, and product movement. FAS also published over 200 reports during the year to help provide U.S. farmers, processors, and exporters with the kinds of information they need to be competitive in the world market.

Beyond reporting on individual countries, FAS uses state-of-the-art remote sensing technology to assess global crop conditions. The timely analytical support provided by the remote sensing unit is the only operational program of its type in the world. That system proved a critical early warning about the effects of the 1992 drought on wheat production in the New South Wales and Queensland areas of Australia.

As a result, U.S. farmers had the benefit of timely information about Australia's crop prospects at a crucial period during the marketing of the U.S. wheat crop.

We are continually working to improve our data processing, data gathering, transmission, and dissemination capabilities to provide better and more timely information to U.S. farmers and exporters.

#### MARKET ACCESS

Another crucial activity in the accomplishment of FAS' mission is to seek improved market access for U.S. farm products in markets worldwide. Without access, our most innovative market development strategies would be futile. That is why FAS personnel, in concert with the Office of the U.S. Trade Representative (USTR), work to foster multilateral and bilateral agreements on trade issues.

A major effort for us during the past year was the negotiation of the proposed North American Free Trade Agreement (NAFTA). Agency personnel played prominent roles in the agriculture negotiations and participated in a number of negotiating areas related to agriculture. FAS also plays a similar role in the Uruguay Round of multilateral trade negotiations under the GATT for global reform of agricultural trade. On April 16, 1993, the Administration announced its intention to request an extension of its fast track negotiating authority. We remain committed to achieving a good agreement for U.S. agriculture in the Round.

FAS staff also work aggressively and continuously in a number of bilateral negotiations, including access for U.S. beef into Korea, EC oilseed subsidies, Japanese dairy restrictions, wheat imports from Canada, and phytosanitary issues with Mexico.

#### FAS' OPERATIONS OVERSEAS

No place is FAS' responsibility to represent the interests of U.S. farmers more integrated and focused than in its offices overseas. Our staff overseas work to fight unfair trade practices, to improve market access for U.S. agricultural exports, to provide market information and analysis, and to carry out market development activities covering more than 130 countries.

To give you just one example on the market development side, our Agricultural Trade Office (ATO) in Tokyo, Japan, has sponsored USA Food Pavilions at FOODEX, Japan's leading international food show, every year during 1982-91. In addition, in 1987 and 1992, we sponsored our own USA food shows. The 1992 Great American Food Show was the largest food show ever conducted by FAS, attended by more than 12,000 Japanese trade visitors. It generated nearly \$2 million in on-

site sales and exhibitors expected their annual sales as a result of the show to total \$21 million. The Tokyo trade office also has sponsored numerous shows in other Japanese cities to promote U.S. products to local wholesalers and retailers and provides facilities for U.S. exporters and services such as market research, product demonstrations, a newsletter, and public relations events throughout the year.

The story is much the same in all our ATO's. FAS has taken steps in the last year to strengthen its ATO operations and as we look to meeting future export needs, we are updating the criteria for evaluating both current and proposed Agricultural Trade Offices.

There is a constant need to re-evaluate our overseas representation to make sure we are in the best position to help U.S. farmers take advantage of emerging market opportunities. In all, one-third of the FAS budget covers the costs required in representing U.S. farmers' interests abroad. As we have increased representation for U.S. farmers in such key areas as Eastern Europe, western Japan, and Mexico, budget constraints have required us to eliminate overseas positions elsewhere. We will continue to carry out our overseas staffing evaluation process in a systematic way, with the basic criteria being the continued enhancement of U.S. exports.

#### FAS BUDGET SITUATION

Before I discuss the fiscal year 1994 Budget proposal for FAS, I would like to comment briefly on our current situation.

Because the fiscal year 1993 FAS appropriation was continued at the fiscal year 1992 level, the agency has had to absorb a total of \$5 million in non-discretionary cost growth resulting from overseas wage and price increases and costs associated with the fiscal year 1993 pay increase.

Absorbing these increases has not been easy, but has been accomplished through the following actions:

- implementing a hiring freeze to eliminate 25 U.S. positions;
- closing 5 overseas offices and downsizing 6 others; and
- reducing Washington administrative support costs by 20 percent.

#### BUDGET REQUEST

For fiscal year 1994, the budget recommends a funding level of \$109.1 million for FAS, a net reduction of \$8.8 million from the fiscal year 1993 level on a comparability basis. The budget proposed two significant changes for fiscal year 1994.

First, the budget proposes a reduction of \$10 million in the level of the FAS contribution to the Foreign Market Development Cooperator Program. This proposal, which is one of the President's deficit reduction initiatives, represents a reduction of approximately one-third from the contribution levels of recent years.

Second, funding for the support of the CCC Computer Facility, previously included in the CCC estimates, is now included in the fiscal year 1994 FAS appropriations request. Previously, the CCC Computer Facility was jointly operated by FAS and ASCS; however, FAS will assume full responsibility for the facility in fiscal year 1994. For comparability purposes, the budget justification materials reflect this adjustment in fiscal year 1993.

The budget proposed several other adjustments for fiscal year 1994 including:

- an increase of \$1.2 million for annualization of the fiscal year 1993 pay increase;
- an increase of \$1.6 million to help offset unavoidable increases in overseas wages and prices; and,
- a decrease of \$1.9 million associated with a three percent reduction in administrative overhead costs. This reflects the first year of a five year initiative to reduce administrative overhead costs by fourteen percent by fiscal year 1998.

#### THE CHALLENGE OF THE FUTURE

Mr. Chairman, I'd like to end with some remarks about the challenges FAS is facing. The world is in the midst of a vast geopolitical and economic upheaval. It is a time when we can build on the past, but we cannot cling to it. We welcome the challenge.

Traditionally, the United States has been a bulk commodity exporter; however, this is changing. High-value exports—such as meats, vegetables, and processed products—now represent 55 percent of U.S. agricultural trade and these exports are expected to increase for the eighth consecutive year in fiscal 1993. In fact, overall, consumer-oriented, high-value exports are the fastest growing sector of the global market—and we are increasing our world market share in this sector. But to assure further growth we need to be creative and flexible in our use of programs, adding

new ones, modifying old, to make sure that we are positioned to help U.S. farmers move into new markets.

Despite our successes in the trade policy area, tremendous challenges still lie before us. Our work in the Uruguay Round continues; the EC still maintains many restrictions that impede imports of a wide variety of U.S. products; Korea and Japan have not opened their markets to the extent that they should; and new problems continually crop up regarding unfair phytosanitary requirements, illogical tariffs, outright import bans, and a variety of other roadblocks to the free flow of agricultural trade.

We recognize that there is a limit to the resources that can be committed to our agency and our export mission, crucial though it is. This means that FAS must work "leaner and meaner." We must improve our services and outreach to U.S. farmers and exporters and we must assure U.S. taxpayers that they are getting all the "bang" possible for their bucks. I personally want to see this agency has the complete confidence of Congress and the public that we are wise and prudent managers of the programs we administer.

Developing new export markets is not something that is accomplished in a single year. We must have faith and patience with programs that may not pay off for a number of years down the road.

That's not going to be easy in a time when there are going to be lots of other interests vying for support and where the payoff might be much more immediate. But it is vital that we make a long-term commitment to export expansion.

At stake is nothing less than the United States' position in the 21st century as the world's No. 1 exporter of agricultural products—and by extension, the U.S. farmer's ability to earn his livelihood via the marketplace rather than through government programs.

Mr. Chairman, that concludes my statement. I would be glad to respond to your questions and to those of the other Subcommittee members.

#### STATEMENT OF CHRISTOPHER GOLDTHWAIT

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to discuss the programs of the General Sales Manager.

The Office of the General Sales Manager oversees the U.S. Department of Agriculture's export, food aid and foreign direct technical assistance programs. These programs touch virtually every corner of the globe to serve both the immediate and longer term interests of U.S. agriculture. We look forward to using these programs in an innovative, coordinated way in fiscal year 1994 to meet the rapidly changing export situation. Some of these tools have been available to us for more than four decades; others have been developed more recently, in response to specific needs to facilitate exports, promote market development, or counter the trade practices of some competitors.

The 1990 Farm Bill provides a wide range of export promotion programs to accommodate any stage of a customer country's development—food aid and other concessional programs for developing countries, export credit guarantee programs for markets that depend on credit, and programs to promote commercial sales to regain, maintain, or increase the U.S. market share. To keep pace with a dynamic world marketplace, we will shift among programs, using them singly or in combination as necessary to maximize sales opportunities for U.S. agricultural producers.

#### FORMER SOVIET UNION

Before I report on the status of our various export programs, let me begin by addressing a subject which has been much reported in the news—the former Soviet Union and our efforts there. We have used a variety of programs to assist the former Soviet Union—export credit guarantees, humanitarian food aid, and technical assistance.

Since January 1991, USDA has made available over \$5 billion in export credit guarantees to the former Soviet Union, Russia and Ukraine. These guarantees were used to facilitate the purchase by these countries of different U.S. agricultural commodities, including a variety of processed products and over 30 million tons of U.S. grains.

Repayments on guaranteed export credit have reached nearly \$900 million, and another \$4.2 billion in credit is outstanding. Since late November 1992, Russia has defaulted on all its repayments for guaranteed export credits which were entered into by the Former Soviet Union and Russia, and program sales to Russia have been suspended since that time. As of April 15, repayments in default totaled \$737 million. Eleven banks have filed claims for repayment and USDA has paid \$379 million



in claims as of April 15. Generally our policy is that after we review the claim for accuracy, CCC pays the claim within 24 hours.

Under the terms of a rescheduling agreement signed in Paris on April 2 by Russia and its 19 major creditor countries, Russia will be able to reschedule a portion of these arrears in addition to a portion of its future repayments coming due during the rest of calendar year 1993. In total, the rescheduling agreement would allow Russia to reschedule a total of approximately \$1.1 billion, repayable between January 1, 1995 and July 1, 2000. Under the terms of the agreement Russia would also be required to repay all arrears to date which were not covered under the rescheduling agreement as soon as possible, but no later than June 30, 1993. As of April 2, arrears not rescheduled totaled \$287 million. These would have to be repaid before the June 30 deadline. In addition, payments coming due between April 2 and June 30 not rescheduled total approximately \$193 million, and between July 1 and December 31 approximately \$212 million. These amounts have to be repaid as they become due.

The Department is working closely with the Department of State and the Treasury in developing the necessary Bilateral Agreement documenting the terms of the rescheduling agreement and negotiating it with the Russian Federation. Once the bilateral is signed, CCC will negotiate an implementing agreement to put the terms fully into force. We hope to have everything in place no later than early-to-mid-June.

Secretary of Agriculture Espy has stressed that this Administration places top priority on resolving the purchasing problems of Russia and Ukraine. Over the past 5 years, the former Soviet Union has accounted for about 20 percent of U.S. grain exports as well as smaller percentages of other commodities; it is not a market we want to lose.

As it became clear that the export credit guarantee program was not appropriate for many countries of the former Soviet Union, or capable of meeting the full demand of Russia and Ukraine, we began to look for other ways to maintain exports outside the GSM-102 program. Let me first discuss how we adapted our export subsidy programs to accommodate compensatory forms of trade—barter, countertrade, offset arrangements, and escrow accounts. Under these arrangements, a party in a third country which has established trade relationships within the FSU often controls the hard currency proceeds resulting from FSU exports. The third country party frequently functions as a buying agent, purchasing goods desired in the FSU and making payment from the generated hard currency. The resources to finance the trade are in the third countries, not in the countries of the former Soviet Union that are the ultimate destinations.

To facilitate U.S. agricultural exports through these non-traditional trading channels, we have modified our Export Enhancement, Dairy Export Incentive, and the Sunflowerseed Oil Assistance Programs to allow sales to third-country buyers for commodities destined for the former Soviet Union. This change allows additional marketing opportunities for U.S. exporters on cash terms. U.S. exporters of wheat, wheat flour, barley, barley malt, rice, vegetable oil, frozen pork, milk powder and butterfat may take part in these transactions.

Since August, U.S. exporters have sold over 2.0 million metric tons of wheat to the former Soviet Union through third country buyers. This is equal to nearly 20 percent of all U.S. wheat exports to the former Soviet Union in fiscal 1992. Exporters have also sold 20,000 metric tons of barley and 37 metric tons of milk powder. I would stress that this business is ongoing, albeit on a smaller scale, even while our export credit guarantee program remains suspended.

Secondly, we have made special efforts to move U.S. agricultural commodities through our food aid efforts in the former Soviet Union. The Freedom Support Act of 1992 gives us added flexibility in this area. The Act eliminated the limitation on programming of 500,000 metric tons under the Food for Progress Program for fiscal year 1993 under section 416(b) of the Agricultural Act of 1949 for commodities furnished to the former Soviet Union. This provision allows us to meet humanitarian food needs in the former Soviet Union during this critical period of transition without limiting the size of Food for Progress programs carried out elsewhere. And it maintains exports of U.S. agricultural commodities.

Thus far in fiscal 1993, the United States has committed over 2.3 million tons of assistance to the republics of the former Soviet Union. This aid, valued at nearly \$575 million, will be handled through government-to-government agreements and agreements with U.S. private voluntary organizations. In addition, the President announced at Vancouver our intention to provide an additional \$700 million in Food for Progress assistance for Russia. Depending on the commodity mix and transportation costs, that will add between 3 to 4 million metric tons more.



Another way we are providing aid to the former Soviet Union is through technical assistance programs. USDA and the U.S. Agency for International Development AID have several programs underway to help develop the agricultural and agribusiness sectors of the former Soviet Union. Projects include the development of a model farm community to demonstrate various aspects of U.S. farm management and marketing practices; development and expansion of wholesale markets in the former Soviet Union; and creation of an extension service. These are just three of our nine technical assistance activities which are underway.

All of these programs give us the tools to provide needed humanitarian and technical assistance, and at the same time help maintain U.S. agriculture's presence in this important market.

I'd now like to provide a broader overview of the programs that are the responsibility of the General Sales Manager.

#### PUBLIC LAW 480

Market development in many countries, especially the low-income developing countries, begins with food aid. The Public Law 480 program focuses on the needs of developing countries and emerging market economies. Its goals are to help meet humanitarian needs, provide calories and nutrients that can increase human productivity, and establish a U.S. presence in the market, particularly for those commodities that a country will need to import on a long-term basis. As countries develop, our expectation—based on many years of experience—is that they will eventually become commercial customers.

Provisions of the 1990 FACT Act made major changes in the program authorities and management responsibilities for Public Law 480. The 1990 Act assigns specific responsibilities for the various titles directly to either the Secretary of Agriculture or the Administrator of AID.

The General Sales Manager in USDA is responsible for policy formulation and program administration in carrying out Public Law 480, Title I, sales activities. AID has similar responsibilities for the Title II donation and Title III government-to-government grant programs. USDA provides operational support to AID for commodity purchases under Titles II and III.

Title I, which is our primary responsibility, provides concessional, long-term credit financing for the sale of U.S. agricultural commodities to developing countries.

During fiscal year 1992, USDA signed Title I concessional credit agreements with 30 countries; 16 of these, or over half, were first-time participants in the program. Agreements with the countries covered nearly \$500 million in sales of U.S. wheat, wheat flour, feed grains, rice, vegetable oil and meal, cotton, and tallow. So far in fiscal year 1993, we have signed new Title I agreements with 14 countries—Belarus, Costa Rica, Cote d'Ivoire, El Salvador, Egypt, Jamaica, Jordan, Lithuania, Moldova, Morocco, Sri Lanka, Suriname, Turkmenistan and Zimbabwe—and we expect to conclude several more agreements in the near future.

For fiscal year 1994, the budget proposes a total program level of \$1.6 billion for Public Law 480 food assistance which is expected to provide for total commodity shipment of approximately 6.3 million metric tons. While the fiscal year 1994 tonnage level is slightly below the fiscal year 1993 current tonnage estimate, it is consistent with the average annual level of Public Law 480 commodity assistance over the past five years.

The proposed program level includes \$502.6 million for Title I long-term credit sales administered by the Department of Agriculture. For programs administered by the Agency for International Development, \$831.9 million is proposed for Title II food donations and \$283.6 million for Title III government-to-government grants.

Looking ahead to 1994, we expect to continue to provide Title I credit to countries that are important markets for U.S. farmers, such as Egypt, the Philippines and Morocco. We also plan to continue our emphasis on using concessional sales programs to establish marketing relationships in Eastern Europe and with individual republics of the former Soviet Union, where commodity needs exist and financial conditions may justify concessional financing.

#### OTHER FOOD AID AUTHORITIES

Section 416(b) of the Agricultural Act of 1949 authorizes donations of uncommitted Commodity Credit Corporation (CCC) stocks to assist needy people overseas. So far in fiscal year 1993, we have signed agreements to donate more than 1.7 million metric tons of grain and butter and butteroil to various countries, including six republics of the former USSR, Tunisia, and, for the first time, Mongolia.

Food for Progress is another well-established food aid program extended by the FACT Act. The program provides commodities to developing countries and emerging

democracies to encourage democracy and private enterprise, including agricultural reform. The program is carried out using funds or commodities made available through Public Law 480 Title I or Section 416(b). In the current year, we have signed agreements with Albania and Armenia and are developing programs with Georgia and Kyrgyzstan using funding from Public Law 480, Title I. Food for Progress agreements using Section 416(b) authority have been signed with Armenia, Belarus, Georgia, Kazakhstan, Latvia, Poland, Russia and Ukraine.

#### EXPORT CREDIT GUARANTEE PROGRAMS

Financing is an essential part of every export transaction. The export credit guarantee programs administered by the General Sales Manager help assure the availability of credit to finance commercial U.S. agricultural exports. Under both GSM-102 and GSM-103, the U.S. government guarantees payment to U.S. exporters and their financial institutions if the foreign banks fail to pay. The guarantees encourage U.S. lenders to extend credit which is used by overseas customers to pay U.S. exporters.

The credit guarantee programs operate within a relatively narrow range of credit risk. The purpose is to underwrite export credit that would not otherwise be made by the commercial sector, but to avoid assuming so much risk as to compromise our reasonable expectation of repayment. Since these programs have been in existence, USDA has had to make payment on about 10 percent of the over \$40 billion in short-term export credit that we have guaranteed. However, a good portion of these costs will eventually be recovered as CCC receives payments on export credit debt which has been rescheduled under the auspices of the Paris Club.

The GSM-102 program covers export credit with repayment terms up to 3 years and is our largest single export promotion program. The Agricultural Trade Act of 1978, as amended, requires that not less than \$5.0 billion in GSM-102 guarantees be made available annually. The GSM-103 Intermediate Credit Guarantee Program facilitates sales that require a longer payback period, typically covering export credit of 3 to 7 years. This program, authorized at not less than \$500 million in guarantees per year through 1995, is designed to help developing nations make the transition from concessional credit to cash sales.

In fiscal year 1992, \$6.1 billion in GSM-102 export credit guarantees were announced for use in 35 countries, and U.S. exporters registered a record \$5.6 billion in actual sales. This represents the largest amount of sales ever registered under the program. Under GSM-103, \$229 million in guarantees were announced for use in 10 countries, and U.S. exporters registered \$88 million in actual sales. GSM-102 and 103 helped U.S. exporters maintain or increase their market share in a number of countries around the world, despite strong competition.

Although we are not yet halfway through the current fiscal year, we have already announced allocations of \$4.2 billion of GSM-102 guarantees to 31 countries. For GSM-103, credit guarantee announcements to date total \$318 million to eight countries.

The 1990 FACT Act provides additional statutory authorities to promote the export of U.S. agricultural products to emerging democracies through export credit guarantees and the sharing of U.S. agricultural expertise. We are working on emerging democracies programs with the republics of the former Soviet Union, the Baltic States, countries in Eastern Europe, and two countries in Latin America. We continue to follow events in these areas closely and to analyze their impact on country creditworthiness. We expect these authorities to help us establish long-term markets for U.S. agricultural products in these regions.

As part of the emerging democracies program, the 1990 FACT Act also authorizes, for the first time, the use of credit guarantees for financing the establishment or improvement of facilities to improve the handling, processing, storage, or distribution of agricultural products. We have discussed similar programs with the Export-Import Bank, the Overseas Private Investment Corporation, and other agencies, and we are now working on operational details for implementation of this program. We hope to be able to use the program in the former Soviet Union to improve food processing and distribution facilities, and at the same time to increase U.S. export opportunities.

For fiscal year 1994, a total program level of \$5.7 billion has been established for the CCC export credit guarantee program. This includes \$5.0 billion to be made available under the GSM-102 program for short-term credit guarantees and \$500 million for intermediate-term credit guarantees under the GSM-103 program. An additional \$200 million of credit guarantees are expected to be made available by CCC during fiscal year 1994 to promote the export of U.S. agricultural products to emerging democracies.



## EXPORT ENHANCEMENT PROGRAM

The Export Enhancement Program helps the United States meet subsidized competition in targeted markets—particularly competition from the European Community. It operates under a bid-bonus system, in which U.S. exporters submit bids for bonus levels that would allow them to sell eligible commodities at competitive prices. In a world market distorted by export subsidies, the EEP is an essential tool for regaining and maintaining the U.S. market share and for pursuing trade policy objectives.

This program has in many cases, increased or prevented further declines in U.S. exports; it has challenged unfair trade practices by others; and it has pressured our trading partners to engage in serious negotiations on bilateral and multilateral agricultural trade issues.

Since the EEP began in 1985, nearly \$5.4 billion in bonuses have been awarded, supporting \$18 billion in U.S. agricultural exports to 101 countries.

In fiscal year 1992, \$968 million in EEP bonuses were awarded to U.S. exporters. The \$3.0 billion in sales made under the program that year accounted for an estimated 74 percent of total U.S. barley exports, almost 60 percent of U.S. wheat exports, and around one-third of U.S. exports of wheat flour, vegetable oil, and eggs.

As of April 15, fiscal year 1993 EEP bonuses of more than \$597 million had been awarded to exporters to assist in sales of over \$2.0 billion in U.S. agricultural commodities.

In fiscal 1992, we made a major change in the operation of the program by announcing all EEP initiatives for a specific commodity in a package. Prior to that, we announced each new initiative or allocation on a country-by-country basis. This package approach offers several advantages:

It gives farmers, exporters and foreign buyers greater certainty about market opportunities, making the United States a more reliable supplier;

It helps avoid sales disruptions that sometimes occur when initiatives expire; and

While negotiations under the Uruguay Round of trade negotiations continue, our announcements signaled to the European Community the scope of the United States' resolve to reform international agricultural trade.

Future use of the EEP depends, in large part, on progress in the current Uruguay Round trade negotiations. Until we have effective GATT disciplines governing international agricultural trade, we plan to continue to use the EEP in a responsible but forceful way to defend U.S. agricultural trade interests in world markets.

## DIRECT SALES, DEIP, SOAP, AND COAP

The General Sales Manager continues to use the authority contained in the CCC Charter Act and Section 407 of the Agricultural Act of 1949 to sell CCC-owned commodities for export. Our efforts in this area have concentrated on CCC stocks of dairy products because of minimum annual sales levels required by statute and the large supplies of uncommitted CCC inventory.

Fiscal year 1992 direct export sales of CCC-owned dairy products totaled 82,575 metric tons, up from 31,000 metric tons in 1991. Major customers included Mexico and Russia. In the current fiscal year, direct export sales of CCC dairy products to date are around 7,991 metric tons, of dairy products valued at \$11.22 million.

The Dairy Export Incentive Program (DEIP), Sunflowerseed Oil Assistance Program (SOAP), and Cottonseed Oil Assistance Program (COAP) were all reauthorized by the 1990 FACT Act. They operate much like the EEP, with bonuses to U.S. exporters to support sales of dairy products, sunflowerseed oil, and cottonseed oil. These programs help U.S. farmers gain access to markets that would otherwise be closed to them because of subsidized prices offered by other suppliers.

In fiscal year 1992, DEIP bonuses to U.S. exporters supported commercial sales of more than 82,253 metric tons of dairy products. The SOAP and COAP programs supported the sale of 281,000 tons of sunflowerseed and cottonseed oils.

As of April 21, the fiscal year 1993 SOAP and COAP programs have supported the sale of nearly 178,197 tons of sunflowerseed and cottonseed oils. In addition, we have announced the DEIP for 98 countries covering 204,020 tons of milk powder, 76 countries for 48,415 tons of butterfat, and 13 countries for 5,800 tons of Cheddar, mozzarella, cream, Gouda, feta and processed American cheese. As of April 12, sales under the fiscal year 1993 DEIP program total 98,921 metric tons.

We plan to continue to use these programs in fiscal year 1994 to help U.S. exporters of these products maintain their position in markets that are targeted by our subsidizing competitors.

## LONG-TERM TRADE STRATEGY

We recently completed a long-term agricultural trade strategy that outlines our goals for the last decade of the 20th century. The strategy that we have developed directly from the 1985 and 1990 Farm Bills involves three basic tenets that have guided us for several years and will continue to do so: (1) maximize the benefits of a market-oriented domestic farm policy; (2) pursue the goals Mr. Schroeter has described through an aggressive international negotiating posture, and (3) continue to use all our export tools responsibly and aggressively, to create an environment where the natural comparative advantage of U.S. agriculture can prevail. While our goal is unchanged, the programs we use have been revised and refined to meet the array of challenges facing U.S. agricultural products.

They give us the tools to:

- defend our overseas markets against unfair trade practices;
- establish new trading relationships in emerging markets;
- create an appetite for U.S. products in the restricted markets of developed countries; and
- provide near-term food assistance and work toward long-term development of commercial markets in countries that now depend on concessional programs.

More than ever, we need to keep our export programs flexible enough to deal with the ever-changing dynamics of the world marketplace. Today, we are using the programs to respond to the dramatic changes in Eastern Europe and the former Soviet Union. We are targeting newly emerging markets in Africa, Latin America and elsewhere. We are establishing links with developing private sectors as countries in many regions recognize the benefits of market economies. And we are prepared to adjust to changes, positive or negative, in bilateral trade relationships and in the multilateral trading system.

We have made many improvements in management and accountability, and I can assure you that these are responsibilities we will continue to take most seriously. We have worked to ensure that our programs are carefully planned, efficiently managed, and aggressively used to achieve our goals.

## OFFICE OF THE GENERAL SALES MANAGER

Finally, for the Office of the General Sales Manager, our fiscal year 1994 budget proposes a funding level of \$9.1 million, an increase of \$0.2 million over the fiscal year 1993 level. This increase is needed to offset the annualized effects of the fiscal year 1993 pay increase.

Mr. Chairman, while many other U.S. export sectors have faltered, agriculture remains this country's leading export earner. The export programs continue to play an important role in helping U.S. agriculture succeed in a complex and competitive trade environment.

That concludes my formal statement. I will be glad to respond to any questions or concerns of this Subcommittee.

## STATEMENT OF JOHN A. MIRANDA

Mr. Chairman, members of the Subcommittee, thank you for the opportunity to share with you the work of USDA's Office of International Cooperation and Development. I'll begin with a brief overview of OICD's mission, provide you with background on our budget, and then tell you about the kind of work we do.

OICD's programs are aimed at strengthening U.S. agriculture's global competitiveness and leadership while, at the same time, supporting economic growth in the developing countries of Asia, Africa, and Latin America, and in the emerging democracies of Eastern Europe and the former Soviet Union.

These international efforts lead to medium and long-term trade benefits for the United States as we help these countries stabilize, reform, and strengthen their agricultural sectors. As we know from historical perspective, growing incomes in developing countries permit people to increase their imports to help meet expanding demands for a larger and more diverse market basket of goods, including food, fiber, and other products. Again, past experience demonstrates this can lead to a stronger U.S. agricultural community through increased exports of U.S. agricultural and other goods and services to fill the needs of our neighbors around the world.

OICD was established in 1978, and was given responsibility for the Department's programs related to international scientific and technical exchanges, liaison with international organizations, international technical assistance and training, and international collaborative research. OICD's establishment was designed to increase efficiency and improve communication within the Department regarding inter-



national development activities. It also provided a much needed central point of contact for people in USDA, other federal agencies, the university community, and the private sector who needed information or assistance related to the international development activities of the Department.

In fiscal year 1992, OICD carried out its work with a budget of \$38.8 million. Less than 20 percent of this, only \$7.2 million, came from direct appropriations. The appropriated funds serve primarily to operate the agency's research and scientific exchange programs, liaison with international organizations, the Cochran Fellowship Program, and the Agribusiness Promotion Program.

The largest part of the agency's budget—\$28.4 million—came from the reimbursable technical assistance, research, and training programs which OICD manages. Of the reimbursable program funds, 60 percent came from our work with the Agency for International Development on more than 80 project agreements. The balance comes from the Support for East European Democracy, or SEED Act, and non-AID sources, including other USDA agencies, international organizations, and universities. An additional \$3.2 million was expended in 1992 for technical assistance activities managed by OICD on behalf of the World Bank and countries such as Spain and Saudi Arabia.

OICD has approximately 200 employees, about 135 of whom are permanent staff. The remainder hold various kinds of non-permanent positions related to specific fixed-term contracts which the agency manages. Roughly 190 OICD employees are located in the Washington metropolitan area; the rest are stationed overseas on long-term assignments.

Throughout the year, in addition to our regular staff of about 200, we usually have as many as 400 to 500 additional individuals working on projects involving more than 70 countries. To fill these jobs, we tap the resources of the many USDA agencies, other federal government agencies, the U.S. university system, and the private sector for the particular expertise required for a project—anything from biotechnology to nutrition to the environment. Our job is to manage USDA's international programs, maximizing the benefits to both the United States and other countries. We do this by reaching out, identifying, and using the vast resources available in the U.S. agricultural and scientific communities to meet needs identified by the various organizations who call on us.

Now I'd like to tell you a little about each of our four program divisions, and give you a very brief overview of the work they do.

Activities in our Research and Scientific Exchange Division are funded through a combination of all three sources of our funding—appropriated, reimbursable, and trust funds. There are three major components of the division's work. The first is the administration of collaborative research. Through long-term research projects, U.S. researchers collaborate with their international counterparts on high priority problems for the U.S. agricultural community, such as citrus canker or the Africanized honeybee. Research is carried out both here and overseas and is funded either by U.S. dollars or by foreign currencies made available from expired Public Law 480 agreements or other sources. The research conducted overseas often cannot be conducted in the United States due to quarantine considerations or the need to study a particular organism or disease in its natural habitat.

There is also the added benefit that such research is usually done at significantly lower cost than is possible in the United States. In fiscal year 1992, this division managed 53 collaborative research projects in 15 different countries, and an additional 164 projects were ongoing in six countries using foreign currencies.

The second component is our scientific exchange program, where U.S. and foreign scientists make short-term visits to each other's country to exchange information of mutual benefit as well as technology, germplasm, and biological materials. In fiscal year 1992, we managed 111 exchanges involving 25 countries and 216 participants. These exchanges have proved invaluable over the years in improving U.S. crops, forestry, and livestock.

Under the auspices of this program, OICD manages a major long-term scientific exchange program with China, a country with a vast reservoir of germplasm resources important for the improvement, protection, and continued diversity of U.S. crops. This past year, 21 teams of U.S. and Chinese scientists visited each other's countries to exchange information on topics of importance to agriculture. Just to mention a few, scientists exchanged plant germplasm resources and biological control agents to protect citrus fruits and stored grains, and a team of U.S. plant quarantine officials visited China to discuss U.S. medfly quarantine practices—an obstacle to U.S. fruit exports to China.

Our reimbursable research programs, the third component, operate mainly in Egypt, India, Thailand, Eastern Europe, and the newly independent states of the former Soviet Union.

For example, the National Agricultural Research Project in Egypt, a far-reaching AID-funded project involving the cooperation of OICD and USDA's Agricultural Research Service, is supporting 28 collaborative research projects. These projects will improve the agricultural research system in Egypt, providing Egyptian farmers with appropriate technology and a supportive policy environment in which to apply that technology.

Our Food Industries Division's emphasis is on agribusiness and is also funded from all three sources—appropriated, reimbursable, and trust funds. This division's Trade and Investment Program helps promote U.S. exports while supporting the development of a healthy, vital, private sector in other countries through marketing workshops, in-country technical team visits, and trade missions. They are involved with the Caribbean Basin Initiative and run an Agribusiness Information Center that provides information regarding export/import regulations and other information needed by U.S. investors and exporters.

The program's scope of work has grown and diversified recently, in both content and geographical breadth. We are now working in the Caribbean, Central American and Andean countries, Central Europe, Sub-Saharan Africa, and the Near East.

In 1992, we sponsored agribusiness opportunity missions for U.S. business men and women to Guatemala, the Dominican Republic, and Jamaica, and advance missions to Belize, Honduras, Hungary, and Nicaragua. Through these missions, U.S. entrepreneurs gain the opportunity to meet and develop joint partnerships with their counterparts in countries to which they may not otherwise be exposed. Developing joint ventures and other business linkages puts American companies in a stronger position to gain access to markets for U.S. agricultural and other products.

The division's Professional Development Program provides career-related training for foreign agriculturists. This training takes place in U.S. universities and institutions and is funded by an international organization or a foreign government. In fiscal year 1992, over 200 participants from 56 countries were placed with U.S. institutions, fostering long-term relationships and future collaboration when the participants return home.

The Cochran Fellowship Program trains young professionals from middle-income countries and emerging democracies and exposes them to U.S. systems, goods, and services to foster mutual trade and promote development. In fiscal year 1992, 472 Cochran Fellows from the public and private sectors of 21 countries received training in the United States, and the program has been a resounding success according to resident USDA agricultural counselors. The Cochran Program has played an especially important role in USDA's efforts to assist Russia and other new republics in the former Soviet Union.

The Development Resources Division, our largest, is funded completely through reimbursable projects and trust funds. This unit coordinates and provides technical assistance to developing countries, using the expertise of its own personnel, other agencies of the Department, and the university community. Its management and training unit conducts short-term technical training in the United States for foreign agriculturists. More recently, the unit is also conducting specially designed in-country training overseas. We anticipate the demand for this training will grow.

The division's major areas of focus are forestry and natural resources, soil and water management, plant protection and animal health, information management, and business management and administration.

In a major undertaking, we are working closely with other USDA agencies to provide technical assistance to the Agency for International Development's natural resource projects worldwide, and policy development and implementation regarding environment and energy concerns here in Washington. Growing pressure on the world's natural resources has heightened the importance of efforts such as these.

While the goal of this division is to build sound institutions and to develop indigenous technical expertise in developing countries over the medium-to-long term, our famine mitigation unit is presently involved in the U.S. response to the emergency situation in Somalia. Currently, we have a famine mitigation specialist on a 3-month detail to the Horn of Africa assisting AID's Office of Foreign Disaster Assistance Somalia Response Team. This specialist reviews and selects AID-funded agricultural projects that will be implemented to help alleviate the suffering in Somalia and throughout the region.

Our fourth division is the International Organizations Division, which has a small staff, funded entirely through appropriations. This division acts as USDA's liaison with international organizations concerned with agriculture. These organizations include the Organization for Economic Cooperation and Development, the Food and Agriculture Organization of the UN, the World Food Program, and the Inter-American Institute for Cooperation in Agriculture. All told, we are actively involved with



about 30 different international organizations whose agendas can have an impact on U.S. agriculture.

Last year's United Nations Conference on the Environment and Development highlighted the increasing interrelationships between agricultural, environmental, and trade issues. Decisions in any one of these areas affect all of them. The Organization for Economic Cooperation and Development has become one of the significant fora for reviewing the impact of policies in these areas. As the work of OECD is expanding, it is affecting more USDA agencies and OICD is expanding its coordinating role vis a vis OECD. At the same time, we are also designating staff to be responsible for follow up to UNCED in the U.S. government as well as in international organizations.

While USDA has a long history of active interaction with the Food and Agriculture Organization of the United Nations, this working relationship will also grow as FAO responds to the agenda set by UNCED. Many USDA agencies, such as the Forest Service, the Animal and Plant Health Inspection Service, and the Agricultural Research Service, work very closely with FAO on matters of concern to U.S. agriculture. OICD places high priority on maintaining this productive relationship, especially in such programs as the Tropical Forestry Action Program, in the Working Group on Plant Genetic Resources, and in the activities of Codex Alimentarius.

OICD also helps promote U.S. candidates for posts in international organizations through the Associate Professional Officers Program, which provides international work experience for junior professionals from the United States. The first seven Associate Professional Officers who had been placed with the Food and Agriculture Organization and the International Fund for Agricultural Development had all completed their tours of duty by the summer of 1991. Two new APO's were appointed and left for their assignments during 1992. Both will be working with FAO, one in Quito, Ecuador, and the second in Jakarta, Indonesia. In fiscal year 1993, APO's will work in the areas of agricultural marketing, natural resources, forestry, nutrition, and pest management.

In addition to our ongoing activity with the international organizations, this year the international community must elect new leadership for the Food and Agriculture Organization and the Inter-American Institute for Cooperation in Agriculture. OICD works with the Department of State to establish criteria used to identify the best candidates for the U.S. Government to support in the elections.

I would now like to briefly turn again to the budget situation for OICD. For fiscal year 1993 OICD's appropriated budget is again \$7.2 million. This is a small but very important component to our total budget, which is projected for this year at \$45.7 million. This represents a 22 percent increase in the reimbursable and trust fund portion of our budget over fiscal year 1992.

For fiscal year 1994, we are requesting \$7.3 million for our appropriated programs. This increase of \$96 thousand is the net of an increase commensurate with a current services level, and a 3 percent cut in administrative costs. We expect our reimbursable and trust fund programs to operate at roughly the same level in fiscal year 1994 as in 1993.

As I mentioned earlier, in all of its activities, OICD draws upon the resources of other USDA agencies, the U.S. land-grant university system, other federal agencies, the private sector, and in-house expertise. We are actually, in many cases, an agency that showcases and provides to governments and institutions abroad the significant talent and expertise encompassed in these institutions. In fact, we operate much like a private sector entity within government rules and regulations. We do not have time to "rest on our laurels" because such a large part of our budget comes from reimbursable and trust funds—funds we must obtain and maintain through proven successes.

Mr. Chairman, in closing, I would like to highlight the fact that a major proportion of the world's population—four billion people—live in developing countries. The majority earn their living through agriculture, the number one occupation in most of these countries. Of those 4 billion people, 2.5 billion live in rural areas, and half of those live below the poverty line. A recently released study by the International Fund for Agricultural Development on results of foreign aid program in developing countries says that well intentioned donors have missed the point of development assistance. That is, the rural poor are not an obstacle to economic recovery but the very key to producing it. To quote from the report, "Poverty is less of a failure of the poor, than a failure of policy makers to grasp their potential."

We at OICD do understand that potential. We well recognize that the world is a "global village" whether viewed from the perspective of trade, nutrition and health, or the environment. OICD is proud of the role it plays in helping both U.S. agriculture and the global village preserve and strengthen a vital agricultural sec-

tor. We continue to be USDA's window to the world and provide a unique service in the Department for U.S. farmers and their neighbors worldwide.

#### STATEMENT OF GALEN S. BRIDGE

Mr. Chairman and members of the Committee, I appreciate the opportunity to be here today to discuss the programs and activities of the Soil Conservation Service (SCS).

#### AGRICULTURE AND THE ENVIRONMENT

The mission of SCS is to provide leadership and administer programs to help people conserve, improve, and sustain our natural resources and environment. SCS provides a major component of the Department of Agriculture's conservation assistance, working with farmers, ranchers, and other land users and rural communities to balance sound environmental management of soil, water, and related resources with sustainable production.

There is no question that agriculture is facing greater challenges than ever when it comes to meeting public demands for environmental protection. Agriculture has been identified as a major contributor to nonpoint source water pollution. It is considered one of the predominant sources of impairment for 60 percent of the Nation's impaired rivers and lakes. In fact, water quality is the most rapidly emerging issue impacting agriculture today, from the standpoint of both environmental concerns and public health concerns. Over three-fourths of our remaining wetlands are in private ownership, much of it in agriculture. The land use and management decisions made on this land will largely determine the fate of our remaining wetlands and the success of creating new ones. Protection and restoration of habitat for threatened and endangered species is another related issue. Obviously, agriculture has a major role to play in achieving progress towards solving these and other environmental problems for the benefit of all citizens. Conservation and environmental protection will, therefore, continue to be a strong focus of the Department.

USDA has historically encouraged voluntary conservation measures by farmers. Through its vast network of county offices, USDA has the institutional framework in place to deliver education, technical and financial assistance to farmers, ranchers, and landowners and has been doing so for more than 50 years. The last two farm bills strengthened our approaches in dealing with cropland erosion, wetland conservation and water quality improvement. In addition, the Agricultural Research Service and the Cooperative State Research Service conduct a wide variety of research activities to develop and improve conservation technology. USDA believes that the use of research, demonstrations, information and education, technical assistance, and incentive programs that encourage farmers to try new ideas, is a primary reason American agriculture has become the most productive in the world. These approaches are helping us meet current environmental challenges as well.

There are several examples of ongoing activities that illustrate agriculture's involvement in these issues.

- In the Pacific Northwest, there is a major regional effort underway for the recovery of declining stocks of salmon and steelhead. Part of that project is focusing on habitat restoration and development of hatcheries. Approximately 40 percent of the remaining salmon habitat is bordered by private land, much of which is cropland, pastureland, and rangeland. Consequently, habitat restoration will depend heavily on landowners' acceptance of and participation in the program. In the fiscal year 1993 Appropriations Act, Congress directed SCS "to provide assistance to private landowners in improving and maintaining riparian zones in the upper watershed area of the Columbia River tributaries."

USDA brings two major components to salmon recovery efforts. These are (1) technical expertise and a planning process that has credibility with agricultural producers and operators; and (2) financial assistance to encourage farmers to install conservation practices through cost sharing assistance. In meeting other regulatory requirements for the protection of endangered species, agriculture will be required to place increased emphasis on habitat protection and pesticide management, actions which have major potential impacts on agricultural production.

- The Environmental Protection Agency (EPA) and the National Oceanic and Atmospheric Administration (NOAA) recently announced final guidance to the states for implementing coastal zone nonpoint source pollution control programs. Again, agriculture is identified as one of the leading contributors to water quality problems in coastal areas. SCS worked with NOAA and EPA to develop technical guidance in the form of management measures to control



nonpoint pollution from agriculture. Some of these measures include sediment/erosion control, nutrient and pesticide management, irrigation water management, and animal waste management. SCS practice standards and specifications are the basis for these measures.

- The Safe Drinking Water Act is being implemented across the country with noticeable impacts on agriculture. One example is additional monitoring costs for small rural communities and potential changes to agricultural practices to protect drinking water supplies. Another example is the new drinking water supply standards that would require the citizens of New York City to spend from \$6 to \$8 billion in water treatment upgrades to supply 9.5 million people with clean water. The annual operating budget would add about \$300 million per year to their cost. The principal source of water quality concern is from agricultural operations in a 1.2 million acre watershed area of the Catskill Mountains and lower Hudson Valley. As an alternative to the expensive upgrades, the agricultural community and New York City are working together to resolve the water quality concern. New York will be investing about \$3.4 million initially to fund the installation of on-farm water quality improvement practices. If these practices are successful in improving water quality, the need for the more expensive treatment will be alleviated.

#### CONSERVATION ASSISTANCE AND PARTNERSHIPS

As I mentioned earlier, USDA has a long history of working with agricultural producers and rural communities to conserve and protect natural resources and the environment. We serve a broad range of customers including farmers, ranchers, other Federal agencies, state and local government, and other land owners and users through our locally-based delivery system. Our assistance is technology-based, translating research results and practical experience into on-the-ground solutions through the expertise of a trained, professional work force. USDA technical staff, primarily located at SCS state and county offices, includes a range of specialists such as soil science, economics, engineering, agronomy, biology, range management, geology, and others. This provides an interdisciplinary approach to identifying and solving resource problems and insures full consideration of alternative conservation treatments, impacts, and benefits.

In addition, SCS maintains extensive natural resource data bases. A National Resources Inventory is conducted every 5 years and includes data on the status, condition, and trends of the soil and water resources on the nonfederal lands of the United States. Detailed soil surveys, conducted in cooperation with other Federal, state, and local agencies, provide basic data on soil characteristics and are available, generally on a county basis, for 1.7 billion acres or about 73 percent of U.S. land area. About 35 million acres of soil surveys are mapped each year. These data bases are used by USDA, and other Federal, state, and local agencies to support conservation and natural resources program planning and implementation.

USDA delivers most of its technical assistance to land users through a network of over 2,900 SCS county offices. These offices are located within local conservation districts that cover about 98 percent of the Nation's non-federal lands. These conservation districts are units of state government, operated by boards of locally elected officials who serve without salary, and organized to develop and carry out local conservation programs. USDA has a Memorandum of Understanding with each of these districts which sets forth working arrangements between the Department and the district. This Federal-state-local and private sector partnership provides an effective and proven delivery mechanism for leveraging our combined resources towards solving natural resource and environmental problems. It enables us to address national priorities within the context of local needs, a grassroots approach to identifying and solving problems. SCS provides technical assistance to more than one million producers and other land users each year on about 60 million acres of agricultural lands including cropland, rangeland, pastureland, woodland, and other lands. Some of the long-term public and private benefits resulting from conservation planning and application assistance include reduced erosion and sedimentation, cleaner water, reduction of health hazards, improved fish and wildlife habitat, protection of wetlands, and flood prevention.

#### ORGANIZATION

As an organization, SCS employs about 13,800 people and has a current appropriation of \$885.4 million. About 80 percent of our budget goes for technical assistance and 20 percent for cost-sharing and financial assistance provided both to individual land users and units of state and local government. SCS also provides the technical assistance required to carry out conservation cost sharing programs ad-

ministered by ASCS including the Conservation and Wetland Reserve Programs and the Agricultural Conservation Program. About 50 percent of our work force, or 6,800 staff years are at the field or county office level which is the primary service delivery point. Other program services as well as technical, managerial, and administrative support are provided through area and state offices which include about 42 percent of the total work force, or about 5,800 staff years. Four regional centers located in Portland, Oregon, Lincoln, Nebraska, Fort Worth, Texas, and Chester, Pennsylvania provide leadership for technical quality assurance and technology transfer to SCS program activities at all levels. The information resources management and software development functions of the agency are carried out at Fort Collins, Colorado, and headquarters activities are located in Washington, D.C.

#### CURRENT ACTIVITIES

Currently, SCS is devoting a considerable portion of available resources towards helping farmers implement conservation compliance plans on highly erodible cropland as required by the Food Security Act of 1985 (FSA). The conservation provisions of FSA were enacted to provide consistency between USDA conservation programs and other Department farm programs by making eligibility for USDA program benefits contingent upon the implementation of a conservation compliance plan on highly erodible cropland. To continue receiving these benefits, producers must fully implement their plan by December 31, 1994, according to a schedule, i.e., "actively applying" the plan each year until it is fully implemented. Conservation practices must be maintained after the initial deadline is met and as long as producers wish to participate in any USDA farm or conservation program. To date, SCS has assisted in developing 1.6 million plans covering 140 million acres of highly erodible cropland, or about one-third of the total cropland in the country. About 58 percent of the planned acreage is now fully implemented with conservation practices. Additional plans are partially implemented and progress is on schedule. Current projections are that fully implemented compliance plans, combined with the grass and trees planted on land enrolled in the Conservation Reserve Program (CRP), will reduce soil erosion on highly erodible cropland in the United States by about 65 percent from pre-compliance levels.

As with any effort of this magnitude, a number of concerns have surfaced. There have been questions about our quality control processes and overall consistency which we have worked to correct with a major quality assurance effort this year. A significant part of the work to complete the implementation of the plans remains to be done by farmers during calendar years 1993 and 1994 in order to remain in compliance. We will be prioritizing our resources toward those states where this workload is heaviest. We do not want any farmer or rancher to have their USDA program benefits jeopardized because our assistance was not available.

Another ongoing activity has to do with wetlands. As you know, SCS has responsibility for identifying and delineating wetlands on agricultural lands to support the administration of the swampbuster provisions of the farm bill. Prior to May, 1991, about 65 percent of the necessary wetland determinations had been made. This involved about 2.5 million determinations covering 16.2 million acres of wetlands. Because of the uncertainty about Federal wetland delineation criteria, we suspended our wetland inventories at that time. These determinations are currently being made only upon request by a producer or another USDA agency. Until criteria are clarified, we are continuing to delay the certification, publication, and periodic review and update of wetland determinations as required by the 1990 farm bill. When these issues are resolved, we will be able to resume our work on wetland inventories and establish the required procedures to periodically review and update these determinations.

The ongoing USDA water quality initiative is another SCS priority activity. Under this initiative, the Department has implemented a cooperative and coordinated effort with private sector agriculture; with other Federal, state and local agencies; with diverse conservation and farm organizations; and with urban communities to identify problem areas and to design and encourage adoption of environmentally sensitive farming systems. SCS, ASCS, and the Extension Service are providing leadership for implementing projects which include educational, technical, and financial assistance to producers to improve water quality. Activities are coordinated with local soil conservation districts, state water quality agencies, EPA, and others. Work is underway in 16 demonstration areas where agricultural chemicals are a water quality concern. The intent of these projects is to increase the adoption of economically sound, on-farm management practices that protect surface and ground water quality through the use of new and innovative practices, and the transfer of information to other areas with similar problems. In addition, the initiative includes



74 hydrologic unit areas with specific agriculturally related nonpoint source water quality problems. Most of these projects are coordinated in with EPA's program under Section 319 of the Clean Water Act.

In 1992, farmers installed water quality practices on 2,155,938 acres of cropland in the USDA project areas. These practices reduce soil erosion and sedimentation, improve the handling of animal waste, and reduce the application and improve the management of nutrients and pesticides. Most of these projects, which began in 1990 and 1991, are expected to run for about five years. Progress is being monitored and an evaluation plan is in effect so we will be able to learn from our experiences and improve our overall strategies and techniques in future efforts. In addition, SCS provides technical assistance to regional water quality programs such as the Chesapeake Bay, Great Lakes, Gulf of Mexico, Puget Sound, Land and Water 201, Long Island Sound, Lake Champlain, and EPA's National Estuaries Program. Altogether, SCS is investing about \$45 million and 700 staff years annually in this initiative. It is important to note that the future direction in water quality as it relates to agriculture will be set through reauthorization of the Clean Water Act.

#### FISCAL YEAR 1994 BUDGET REQUEST

As you know, the President's budget request for fiscal year 1994 proposes the establishment of a Farm Service Agency which consolidates the functions of SCS, ASCS and the Farmers Home Administration. One appropriation account is requested which provides funding for the salaries and expenses of all three agencies including all technical assistance program activities currently performed by SCS as follows:

- Technical assistance provided to producers for implementing the highly erodible land and wetland provisions of FSA;
- Technical assistance to carry out CRP, the Wetland Reserve Program, the Agricultural Conservation Program, and other conservation cost sharing programs currently administered by ASCS;
- Other conservation technical assistance provided under Memoranda of Understanding with conservation districts;
- Support for the ongoing USDA water quality initiative;
- Soil surveys and National Resources Inventories;
- Operation of 26 Plant Materials Centers which test, evaluate, and encourage the use of plant species for treatment of conservation problem areas;
- Snow surveys and water supply forecasting in the western states and Alaska;
- River Basin and flood plain management studies done in cooperation with state and local units of government and other Federal agencies;
- Technical assistance for planning and constructing watershed projects authorized by Public Law 78-534 and Public Law 83-566, and for emergency watershed protection activities to repair damages to watersheds resulting from natural disasters;
- Technical assistance to support the planning and application of conservation practices under long-term contracts with farmers and ranchers in the 10 Great Plains states; and
- Technical assistance to support ongoing activities in 246 authorized Resource Conservation and Development (RC&D) areas.

This proposal reflects the Administration's commitment to streamline agency operations, reduce administrative and overhead costs, reduce the number of federal employees, and improve USDA services to farmers. Savings would result from a streamlined county office structure and from efficiencies at the National and state office levels as the agencies are consolidated. An overall savings of \$61 million is reflected for 1994, and cumulative savings of \$735 million over four years are estimated to result from this consolidation. Fiscal year 1994 employment levels are reduced by about 5 percent from the 1993 level.

Cost sharing and financial assistance is proposed to continue at about the level provided for fiscal year 1993 for all SCS programs that provide such assistance. Under the Great Plains Conservation Program, \$16.3 million would be available to sign an estimated 1,150 contracts to install conservation practices on 3.5 million acres of land. A total of \$149,953,000 is requested for Watershed and Flood Prevention Operations to fund construction and land treatment costs on 314 subwatershed projects authorized under Public Law 534 and 610 small watershed projects under Public Law 566, including 29 new projects. This amount also includes \$20,853,000 for emergency watershed protection activities to provide an immediate response to reduce hazards to life and property in watersheds damaged by natural disasters. Finally, \$5.8 million is requested for financial assistance available to local RC&D areas as seed money to install measures planned by RC&D councils for the con-

servation and development of natural resources, and the enhancement of social, economic, and environmental conditions in rural areas.

I will provide for the record a table showing the fiscal year 1993 funds appropriated by state and local governments for conservation programs. We will be happy to respond to questions.

FUNDS APPROPRIATED BY STATE AND LOCAL GOVERNMENTS FOR CONSERVATION PROGRAMS  
FISCAL YEAR 1993

State	State government	Local government	Total
Alabama .....	\$3,847,862	\$1,004,422	\$4,852,284
Alaska .....	205,000	3,500	208,500
Arizona .....	8,787,465	1,176,163	9,963,628
Arkansas .....	1,356,156	1,805,334	3,161,490
California .....	78,284,606	8,955,187	87,239,793
Colorado .....	945,084	769,911	1,714,995
Connecticut .....	2,219,989	915,673	3,135,662
Delaware .....	7,320,000	815,000	8,135,000
Florida .....	1,819,812	2,872,636	4,692,448
Georgia .....	4,518,000	3,616,500	8,134,500
Hawaii .....	750,800	140,130	890,930
Idaho .....	5,433,782	161,000	5,594,782
Illinois .....	5,050,100	1,393,479	6,443,579
Indiana .....	6,122,392	3,570,921	9,693,313
Iowa .....	15,033,431	845,088	15,878,519
Kansas .....	16,087,152	10,279,882	26,367,034
Kentucky .....	3,600,200	3,011,100	6,611,300
Louisiana .....	3,538,164	701,000	4,239,164
Maine .....	332,250	445,378	777,628
Maryland .....	18,740,915	6,287,458	25,028,373
Massachusetts .....	1,201,555	404,300	1,605,855
Michigan .....	5,497,848	1,957,833	7,455,681
Minnesota .....	26,663,000	24,490,300	51,153,300
Mississippi .....	370,884	2,986,841	3,357,725
Missouri .....	31,741,168	235,000	31,976,168
Montana .....	2,454,060	1,345,000	3,799,060
Nebraska .....	7,231,174	32,971,312	40,202,486
Nevada .....	14,500	138,192	152,692
New Hampshire .....	185,000	283,746	468,746
New Jersey .....	1,079,000	2,525,400	3,604,400
New Mexico .....	533,090	908,128	1,441,218
New York .....	1,662,125	6,507,004	8,169,129
North Carolina .....	9,342,491	6,763,904	16,106,395
North Dakota .....	7,291,600	1,146,469	8,438,069
Ohio .....	8,969,659	5,585,202	14,554,861
Oklahoma .....	5,333,510	500	5,334,010
Oregon .....	328,013	1,188,862	1,516,875
Pacific Basin .....	922,193	0	922,193
Pennsylvania .....	2,565,000	4,167,490	6,732,490
Puerto Rico .....	8,002,873	683,100	8,685,973
Rhode Island .....	53,800	106,135	159,935
South Carolina .....	3,633,945	1,922,202	5,556,147
South Dakota .....	2,178,000	919,510	3,097,510
Tennessee .....	1,664,593	1,855,630	3,520,223
Texas .....	3,324,880	2,013,422	5,338,302
Utah .....	25,091,930	206,050	25,297,980
Vermont .....	535,000	96,864	631,864
Virginia .....	6,683,128	2,407,236	9,090,364
Washington .....	7,078,400	3,365,300	10,443,700
West Virginia .....	8,550,700	523,500	9,074,200



FUNDS APPROPRIATED BY STATE AND LOCAL GOVERNMENTS FOR CONSERVATION PROGRAMS  
FISCAL YEAR 1993—Continued

State	State government	Local government	Total
Wisconsin .....	5,116,085	7,062,383	12,178,468
Wyoming .....	520,355	1,595,254	2,115,609
Total .....	369,812,719	165,131,831	534,944,550

BIOGRAPHICAL SKETCHES

CHARLES J. O'MARA

Charles J. (Joe) O'Mara holds the rank of Minister Counselor in the Department of Agriculture's Foreign Agricultural Service. In January 1990, U.S. Trade Representative Carla Hills and former Secretary of Agriculture Clayton Yeutter appointed Mr. O'Mara as their negotiator for agriculture in the Uruguay Round of multilateral trade negotiations. In August 1991, he was named Special Trade Negotiator in the Department's International Affairs and Commodity Programs Office, where he has maintained his responsibilities for the Uruguay Round and spearheaded negotiations on agriculture in the North American Free Trade Agreement (NAFTA). He is currently serving as Acting Under Secretary for International Affairs and Commodity Programs.

From 1984 through 1989, Mr. O'Mara was Assistant Administrator for trade policy in the Foreign Agricultural Service where he directed the formulation and implementation of U.S. agricultural trade policy. Prior to that, he served as Deputy Assistant Administrator for Trade Policy (1982–1984), Director of the Western Europe-Inter America Division (1981–1982) and Deputy Director for Analysis of the Oilseeds and Product Division (1980–1981). Mr. O'Mara has also served as Agricultural Minister-Counselor in Geneva, Switzerland and Agriculture Attache in Brazil and Argentina.

Mr. O'Mara was born in Baltimore, Maryland. He is a 1967 graduate of the University of Maryland with a Bachelor of Science degree in Business Administration.

He and his wife Susan have one daughter, Ellie, and two sons, Stephen and Matthew. They reside in Silver Spring, Maryland.

BRUCE R. "RANDY" WEBER

Bruce R. Weber is Acting Administrator of the Agricultural Stabilization and Conservation Service (ASCS). As Acting Administrator, he is responsible for the planning, development, formulation, and evaluation of overall ASCS policies, programs and related activities. In addition, he also serves as Acting Executive Vice President of the Commodity Credit Corporation (CCC), a \$30 billion government-owned and operated corporation instrumentality charged with implementing the commodity stabilization functions of the U.S. Department of Agriculture.

Prior to his present assignment, Randy served as the Director of the Cotton, Grain and Rice Price Support Division (CGRD). As Director, he was responsible for the development of policy and the administration of nationwide programs for wheat, feed grains, cotton, oilseeds, rice, sugar, honey and peanuts. He also served as Acting Assistant Deputy Administrator for Policy Analysis (DAPA), where he participated with USDA policymaking officials in the analysis and development of national program policies for farm price support, supply adjustment, and related programs. Previously, he has also served as Director, Commodity Analysis Division (CAD), of the U.S. Department of Agriculture's Agricultural Stabilization and Conservation Service. This Division served as the centralized analytical resource in ASCS/USDA for the development, formulation and evaluation of multi-billion dollar national commodity program policies.

Randy began his ASCS career in 1960 working as a Program Assistant in the Decatur County ASCS office. He worked 14 years in four different Kansas county offices in various positions including Chief Program Assistant and County Executive Director. He transferred to Washington, D.C. in 1974 and worked principally as a grain analyst and policy adviser responsible for formulation, development, analysis, and evaluation of price support and related programs for grains, fibers, dairy, sugar,

peanuts and tobacco. Randy was raised on a dairy, irrigated grain and hay farm in Decatur County, Kansas.

Randy is married and has two children.

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#### RICHARD B. SCHROETER

Mr. Schroeter is a native of Reedley, California, and a graduate of the University of California in Los Angeles, California. He received his B.S. and M.S. in Economics.

Mr. Schroeter began his career with the Foreign Agricultural Service in 1966 as an International Economist and served as Assistant Agricultural Attache in the U.S. Mission to the EC from 1970 to 1975. In 1978, he became Director of the Market Economics Division, ITP. Mr. Schroeter moved to the Horticultural and Tropical Products Division, Commodity and Marketing Programs, in 1979 as Deputy Director of Marketing. Mr. Schroeter became the Deputy Assistant Administrator, Trade Negotiations, International Trade Policy, in 1987 and later in May 1991 became the Assistant Administrator of International Trade Policy.

Mr. Schroeter assumed his present position of Acting Administrator of the Foreign Agricultural Service in January 1993.

He is married, has 2 children and lives in McLean, Virginia.

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#### GALEN S. BRIDGE

Native of Maine.

Education: BS Degree in Agricultural Engineering, University of Maine, 1957. Masters Degree in Public Administration, University of Virginia, 1966.

Career: Present Position: Acting Chief, Soil Conservation Service, and Associate Chief, Soil Conservation Service, USDA, Washington, D.C.

Former Positions: Deputy Chief for Programs, Soil Conservation Service, USDA, Washington, D.C.; Deputy Chief for Administration, Soil Conservation Service, USDA, Washington, D.C.; Assistant Chief, Northwest, Soil Conservation Service, USDA, Washington, D.C.; Director, Conservation Operations, Soil Conservation Service, USDA, Washington, D.C.; State Conservationist, Soil Conservation Service, USDA, Spokane, Washington; Deputy State Conservationist, Soil Conservation Service, USDA, Denver, Colorado; Assistant State Conservationist, Soil Conservation Service, USDA, Portland, Oregon; and Agricultural Engineer, Soil Conservation Service, USDA, Orono, Maine.

Memberships: Soil Conservation Society of America, American Society of Public Administration, Fellow-National Institute of Public Affairs.

Awards: Presidential Meritorious Rank Award, U.S. Department of Agriculture Superior Service Award, Washington State Professional Service Award.

#### COOPERATOR PROGRAM

Senator BUMPERS. Mr. O'Mara, going to the last page of your statement on the \$10 million proposed cut for the Foreign Market Development Cooperator Program, describe that program for me?

Mr. O'MARA. The Cooperator Program has been in place in the Department for a number of years. I do not know precisely how long, but it involves commodity groups cooperating with the Foreign Agricultural Service to improve our sales of exports overseas. The program is primarily focused on bulk commodities.

Senator BUMPERS. How does it differ from an MPP Program, for example?

Mr. O'MARA. The MPP centers on shorter-term promotion of products in targeted markets. Under the Cooperative Program, the efforts are focused on developing and expanding markets for soybeans or wheat or cotton or other bulk commodities.

Senator BUMPERS. Why are you cutting it? Do you feel it is not a successful program?

Mr. O'MARA. No; we think this program has been quite successful over time. As part of the President's budget deficit recommendations, this program is being subjected to a \$10 million cut. What

we intend to do is to refocus the program in areas of the world where market potential is perhaps greater than in others. That is, there will be more effort made to promote bulk commodities in areas of the world such as India, for example, and less so in Western Europe.

There will be more of an effort to focus on what you might call less sophisticated economies, and the Market Promotion Program will focus more on more sophisticated markets where we have greater market potential for consumer ready type products.

#### STATE DEPARTMENT ADMINISTRATIVE COSTS

Senator BUMPERS. Mr. O'Mara, this is on the slightly unrelated subject, but I was just trying to figure out other places you might cut. I understand that you share—the Department of Agriculture shares with the State Department—cost of embassies, based on your personnel in those embassies, is that correct?

Mr. O'MARA. Yes, sir; we do cost share.

Senator BUMPERS. What is the total cost to USDA for all the embassies in the country where we share cost? In the world, rather, not in the country.

Mr. O'MARA. Let me just check. The total is \$6 million.

Senator BUMPERS. How much?

Mr. O'MARA. It is \$6 million.

Senator BUMPERS. How current is that practice? We have not always done that, have we?

Mr. O'MARA. There has always been cost sharing to some degree. I think what has happened in more recent years is that our participation in the cost sharing effort that the State Department requires of all agencies, not just FAS, has increased.

Senator BUMPERS. I wonder if they charged the CIA.

Mr. O'MARA. I do not know, sir.

Senator BUMPERS. That is not a fair question. That is more a comment than a question.

#### USDA RESTRUCTURING

Now, going back to the consolidation of these agencies in the Farm Service Agency, you mentioned here that the farm programs of Farmers Home Administration is going to be a part of this. How about the remaining programs? As a matter of fact, I think you mentioned farm programs in housing, is that correct?

Mr. O'MARA. Yes, sir.

Senator BUMPERS. Now, what happens to the water treatment, the Business Development Program, all of that?

Mr. O'MARA. If I might, I would let Randy Weber respond to that question.

Senator BUMPERS. Mr. Weber?

Mr. WEBER. I think it is generally presumed that those functions of FmHA would go to RDA or the Under Secretary for Rural Development.

Senator BUMPERS. So the short answer is you have not decided yet?

Mr. WEBER. It really has not been decided. They are still working on what avenue it would take. But generally the thinking is that



it would go over to the small communities and rural development side.

Senator BUMPERS. I do not have any strong objection to these consolidations or any other savings you are trying to accomplish as long as they are done in a fair manner. And one of the things, of course, that every Member of Congress is going to hear about is how many jobs are going to be lost, are we going to be laying off career personnel, are we going to do it through attrition, or how are we going to accomplish it with the least disruption to both farmers and employees?

Mr. O'MARA. Well, Mr. Rominger, who will I think shortly be in place as Deputy Secretary, has been and will be given the charge of directing the creation of this Farm Service Agency, Mr. Bumpers, and he intends to hold discussions with Members of Congress, the career service in these agencies, and the farmers, the end-users of these services, before there is a final plan put in place so that fairness is achieved.

Senator BUMPERS. Well, do you have any idea when this plan is going to be forthcoming?

Mr. O'MARA. I think it will be sometime this fall, but Mr. Rominger, of course, has not been confirmed yet, but he indeed will take on this charge as one of his major responsibilities. And I think he is first concerned with getting an assessment of all those who are interested in the creation of this agency as to the most practical way to proceed. But generally speaking, I think he is looking to some time this fall.

Senator BUMPERS. If I were President Clinton and I were going to sign off on this, I would want to get that done as quickly as possible because I have a feeling it is not going to initially be very popular, just because people resist change, not because it is not a good idea. And I would hope that you all would get cracking on that right away and come back to Congress with something that we can approve without blood being all over the floor.

#### CORN DISASTER PAYMENTS

Now, Mr. Weber, I guess I ought to ask you this question because this is really an important question. Who made the decision and when was the decision made to provide 1992 disaster relief to corn growers based on the quality of their crop? You have the authority to do it. I am not questioning that. I am just saying who made the decision and when was it made?

Mr. WEBER. The decision was made by the Secretary just prior to the announcement, and that has been approximately 2 weeks ago that the announcement was made. The reasoning for announcing corn only was the determination that the situation in corn appeared to be much more severe than for other commodities.

I might say that since that announcement there have been considerable concerns expressed about other crops.

Senator BUMPERS. Call it an uproar, if you will.

Mr. WEBER. And that is currently under review.

Senator BUMPERS. Well, now, let me just say this, Mr. Weber. In my opinion and based on the makeup of this subcommittee as well as the full Agriculture, either you are going to have to rescind that



or you are going to have to include other crops, because I can tell you the wheat farmers suffered a lot, too, in 1992.

#### DISASTER PROGRAM FUNDING

And while I am on that, how much disaster money do you have available to you right now for 1990, 1991, and 1992?

Mr. WEBER. The initial appropriation was a little over \$1 billion—\$755 million in the first appropriation—

Senator BUMPERS. Right.

Mr. WEBER. Plus \$382 million, and there is another—

Senator BUMPERS. But it is \$482?

Mr. WEBER. There is another \$100 million the President could request. We are currently estimating that under phase II and phase III we will be paying out approximately \$700 million, \$700 to \$720 million, in addition to the \$150 million estimated with the corn announcement. So there would be around \$850 to \$870 million. We would have a balance of around \$275 to \$375 million.

Senator BUMPERS. Have you made a calculation on that including the corn crop for disaster in 1992 would cost?

Mr. WEBER. I am sorry?

Senator BUMPERS. Well, when you declare corn eligible for disaster assistance for 1992, did you also make a calculation as to what the cost of that might be?

Mr. WEBER. \$150 million.

Senator BUMPERS. \$150 million?

Mr. WEBER. Yes.

Senator BUMPERS. Was this problem with corn, what shall I say, more pervasive or worse in certain areas of the country than in others?

Mr. WEBER. This particular problem was worst in the Northern States where they had cool, wet weather last year. The biggest share of it occurred in the 11 Northern States, principally Wisconsin, Michigan, Minnesota, and South Dakota.

They had weather that provided the prospects for a good crop, but they wound up with a harvest that in many cases was high enough in quantity to make them ineligible for our disaster program even though it had a low test weight and high moisture, so that when they marketed the crop it that was worth essentially nothing.

Senator BUMPERS. What was the corn crop in 1992? Was it 8.5 billion bushels?

Mr. WEBER. I believe that is correct, yes.

Senator BUMPERS. Is that more or less than we harvested in 1991 on the same acreage on a per-acre basis?

Mr. WEBER. It was more.

Senator BUMPERS. It was more? That does not sound much like a disaster does it?

Mr. WEBER. It certainly does not sound like a disaster from a quantity standpoint.

Senator BUMPERS. You say you have this under review?

Mr. WEBER. We have it under review, yes.

Senator BUMPERS. And as chairman of this committee, and I know I speak for the other members of the committee—we have one Senator from Nebraska on the full Agriculture Committee, and

we have a Senator from Nebraska on this subcommittee. And I know that all of us who are concerned about wheat, for example, if you are going to go forward with the corn disaster we would like to know what your decision is as soon as possible because if we cannot do it administratively, then we will try to do legislatively an addition to this.

Mr. WEBER. Mr. Chairman, I can assure you we will keep you informed, and as soon as a decision is made we will let you know.

#### OFF-FARM INCOME LIMIT

Senator BUMPERS. Thank you very much, Mr. Weber. Now, Mr. O'Mara, this is a policy decision which you probably had very little to do with. And I assume that this is an initiative of the new administration, at least by OMB. I have always said I would rather be head of OMB than President any time.

But the decision, of course, to say that you are not going to be eligible for these farm programs if you have \$100,000 in outside income, I really have mixed emotions about that. My Ozark Mountain populous spirit says, that is a good idea. And on the other hand, I know that a lot of people will have no choice but to sell their land or to do something else. And I can think of all kinds of isolated, or maybe not so isolated, or individual cases where people have a \$100,000 income because somebody discovered oil on their land. It has nothing to do with inheriting money or anything else.

Is the thrust of this that if you have \$100,000 of income the Government has no business paying you any kind of a subsidy on your land? And if that is the rationale, why pay anybody?

Mr. O'MARA. Well I think, Mr. Chairman, the concept—as you say—has a lot of appeal. And you mention that part of you sees some appeal in this. I think that is a strongly held view by many people, and it certainly is the reason why the budget proposal reflects the \$100,000 payment limitation.

I think in practice that it is a difficult concept to carry out, and I expect that there will be some further discussion of that up here as well as within in the administration as the process ensues.

Senator BUMPERS. Mr. O'Mara, here is what I believe. I do not believe today that a cotton, or a wheat, or a corn farmer can stay in business 10 minutes without Government help. Oh, I know how popular it is to go out here and say we can balance the budget if we just cut all those farm subsidies and so on. And, you know, we are always willing to look at that. We are always willing to look at what is fair.

But when you consider the fact, for example, that the European Community subsidized corn and wheat both, and cotton, at twice the level of ours. And while during the past 6 or 7 years we have cut agricultural programs by two-thirds while the European Community has increased theirs by 100 percent, and we sit around moaning about how we cannot compete. Well, of course we cannot compete when we are at that sort of a disadvantage.

So, I am just simply saying that I know a lot of farmers in my State, and I expect I speak for Senator Bond in Missouri, that if you say you have over \$100,000 in outside income you cannot participate, you are effectively saying you cannot farm. If you are in the cattle business, OK, because there is not enough there to

amount to anything. But if you are a wheat farmer or a corn grower and you have \$100,000 outside income you are out of business.

You cannot farm today without Government programs. Do you agree with that? And cotton and rice.

Mr. O'MARA. Well, I cannot say that I understand the situation in your State, Senator. What I do understand is that there is a strong sentiment to limit the amount of subsidies going to the farm sector, and this is one approach that is obviously part of the President's budget.

Senator BUMPERS. I am not asking you to confront the President, or OMB, or anything.

Mr. O'MARA. Thank you, sir.

Senator BUMPERS. I am just asking you, as a clinical question, do you not pretty much agree with me that nobody can farm wheat, cotton, rice, or corn today unless they get these up to \$50,000 deficiency payments?

Mr. O'MARA. I do not know where the number stands across the country. What does seem to be clear to me is that if farm income is going to be sustained in the out years with budgetary pressure that forces reduced Federal spending in the farm sector, there has got to be some way to improve that situation. And it seems to me that the reality is that whether it is through payment limitation or some other approach that budgetary restraint is going to continue to force this to happen.

The only alternative we have is to improve our market situation overseas, and to get better access and improve our ability to sell out of this country. For example, we export nearly 60 percent of our wheat, obviously a large share.

Senator BUMPERS. What percent?

Mr. O'MARA. Sixty percent of the wheat we produce is exported.

Senator BUMPERS. And what percentage of our rice crop do we export?

Mr. O'MARA. I am so glad you asked that. That is the next one on my chart here. That is nearly 45 percent.

Senator BUMPERS. It has been higher than that in the past, has it not?

#### CONTRIBUTION OF AGRICULTURE TO TRADE BALANCE

Mr. O'MARA. It has been higher than that. This year it is a little lower, as a matter of fact.

Senator BUMPERS. And incidentally, while we are on that subject, Mr. O'Mara, you said in your statement that we exported 42 billion dollars' worth of agricultural products last year. Now, what amount of that was a contribution to the balance of trade, do you know, our trade deficits?

Mr. O'MARA. The net of that would have been \$18 billion.

Senator BUMPERS. \$18 billion?

Mr. O'MARA. Yes, sir.

Senator BUMPERS. There is a little contribution that very few people ever talk about around here.

Mr. O'MARA. That is correct.

Senator BUMPERS. I interrupted you. I apologize. Go ahead.

Mr. O'MARA. Well, the point I was making is the one that you are making too, I think, Senator, that the role of agriculture in ex-



ports is already substantial, and the income benefits from exports are very substantial. This is a key issue as we face budgetary restraints in the years to come.

And I think we have to come back to the point that we have to improve the situation overseas for our farmers if, indeed, more of their income is going to be coming from the market rather than from the Treasury.

#### CONSERVATION RESERVE PROGRAM

Senator BUMPERS. I have a host of other questions, but I want to yield to Senator Bond. But let me ask you about the Conservation Reserve Program. How much money did you say is in the 1994 budget for that?

Mr. O'MARA. May I turn you over to Mr. Bridge, sir, to answer that question.

Senator BUMPERS. Mr. Bridge. I thought that was in the statement. I have just forgotten what it was.

Mr. BRIDGE. \$1.8 billion.

Senator BUMPERS. \$1.8 billion?

Mr. O'MARA. That is correct.

Senator BUMPERS. For the record, the Conservation Reserve Program is taking of the easement on land for a 10-year period, correct?

Mr. BRIDGE. That is correct.

Senator BUMPERS. And can you tell me—I asked the Secretary the other day, but I did not get a very definitive answer. How much are we paying per acre on average for that program?

Mr. BRIDGE. Randy, I believe the annual costs are about \$45 per acre?

Mr. WEBER. They are in the neighborhood of \$45 an acre, yes.

Senator BUMPERS. So, you are talking about \$450 for a 10-year period, correct? Now, I have got a good patch of land of farm. I would sure love to get in that, \$526. Is that correct, \$526?

Mr. WEBER. For the 12th sign up the rental payments average about \$630 an acre for the full 10-year period. You add to that the cost-share payments of \$33 an acre, and technical assistance. The bottom line is a total cost of around \$682 per acre for the full 10-year period.

Senator BUMPERS. Now, the Wetlands Reserve Program only costs \$900 and something an acre, does it not?

Mr. WEBER. Yes; for the 50,000 acres that we took in under the pilot program.

Senator BUMPERS. And we keep that forever.

Mr. WEBER. That is correct.

Senator BUMPERS. That is a permanent easement.

Mr. WEBER. That is a permanent easement.

Senator BUMPERS. For \$900 and something, and we are paying for a 10-year easement with no constraints on the future use of the lands at the end of the 10-year period. We are paying \$682.

Mr. WEBER. That is correct.

Senator BUMPERS. Does that sound like a bargain to you?

Mr. WEBER. Well, certainly some people have raised the question.

Senator BUMPERS. I am raising it right now.



Mr. WEBER. With regard to the CRP, when the contracts expire, if the land does come back into production it will be under the conservation compliance rules. There will have to be a plan in place, or if there is not, the producer would be subject to loss of other program payments.

Senator BUMPERS. He is going to be in Argentina by then. What is the requirement on the plan? I mean, what are the limitations on the use of that land at the expiration of 10 years?

Mr. WEBER. At the end of 10 years, if it is left in its vegetative—

Senator BUMPERS. I understand the sodbuster and swampbuster, for example. Is there anything else?

Mr. WEBER. The producer could bring it back into production then. If it is brought back into production under a plan, he would then be eligible for program payments.

The issue of what will be done at the end of the 10 years is something the Department is currently studying. We will likely be coming to the Congress with recommendations as to what we might do. Certainly there are some that would like to see an extension of these payments.

Senator BUMPERS. Mr. Weber, how much land do we have in that program now?

Mr. WEBER. We currently have 36½ million acres, and we have a goal, a statutory goal of 39 million acres.

Senator BUMPERS. Will this \$1.8 billion help you get there?

Mr. WEBER. That will help us get 1 million acres next year toward reaching that goal.

Senator BUMPERS. Is that what you are trying to do, get another 1 million acres next year?

Mr. WEBER. That is what we are trying to do.

Senator BUMPERS. By 1995 or 1996, this program ends and land starts coming out of the program, right?

Mr. WEBER. That is correct.

Senator BUMPERS. You know, I applaud and was a chief cosponsor of swampbuster and sodbuster both, and of course this serves two purposes. No. 1, land ought to be rested periodically. I think we would all agree with that. It serves that purpose.

Another purpose it serves, of course, is when you consider how much we are paying in subsidies for crops, it takes a lot of cropland out of production, reduces price pressure, and so on.

But boy, that is an expensive program. What do you have to do to get into it?

Mr. WEBER. You would have to come into the county office and submit an application when we have a signup, and your land would have to be determined to be highly erodible or meet specific criteria. Then you would file a bid, and we would go through a process to determine whether that bid was acceptable based on the environmental benefits, the dollar amount of the bid, and how it compares to other bids.

Senator BUMPERS. Let me ask you this question. Iowa has always held the dubious distinction of losing more topsoil off its farmland than any State in the Nation. My father-in-law used to spend a lot of time there, and he used to tell me about how you

could get stuck on a highway after a rain because so much of the topsoil had washed out on the road.

And today, even today, with Iowa's really valiant efforts to stop the erosion, their success has been limited in one sense, I think, because I think at one time they were losing something like 16 tons of topsoil per acre per year on their mostly corn land.

And today I think they have reduced that somewhat but they still, as I say, hold the distinction of losing more topsoil per acre than any State in the Nation.

Now, is land like that just because of a fairly indigenous problem, is that land eligible?

Mr. WEBER. If it is considered highly erodible it would be eligible, and if it meets other criteria such as contributing to certain kinds of water quality problems, it would qualify under this program.

Senator BUMPERS. Let me yield to Senator Bond.

Senator BOND. Thank you very much, Mr. Chairman. I want to follow up. Obviously, we both have great interest in the soil conservation and erosion prevention area. A few years ago, Missouri was a nice strong second to Iowa in the loss of soil. We have tried many things. We have worked hard at it both at the State level as well as here.

But let me ask a basic question, and maybe Mr. O'Mara is the one to ask it of. We see these budget cuts as they impact farming having a tremendous blow to the farmers. A lot of analysis has been done. Back in the heartland, you do not have to look too far. Most farmers in Missouri have their own PC, and they can tell you pretty quickly what it is going to do.

And when you combine the slashes in farm programs such as 0/92, 50/92, expanding the triple base program, it looks to me like somebody has assumed that we are going to get a GATT negotiation and wipe out the competition of the European Community and others who are dumping the subsidized crops on the world market.

Has there been a study done within USDA or OMB as to the impact of these cuts on American farmers?

Mr. O'MARA. With respect, Mr. Bond, to whether or not there is a GATT negotiation or just generally speaking?

Senator BOND. I am saying you have assumed the GATT, and we read in the paper today that the Budget Director does not think there is going to be GATT. But we have a situation now where we are fighting the subsidized competition of the European common agricultural program.

With all these cuts, 0/92, 50/92, triple base, what studies have been done as the basis of the OMB recommendations that you slash support programs?

Mr. O'MARA. Yes, sir; there has been a study completed and we can make that available to you.

Senator BOND. Who did it and when?

Mr. O'MARA. It was done by the Economic Research Service recently. I do not know precisely when.

Senator BOND. After the proposals went up?

Mr. O'MARA. As far as I know that is true, sir, yes.

Senator BOND. I would want to see a copy of that study because I can tell you that the people in academia in my State who studied

it can only conclude that nobody had thought this out before they proposed it, because if we want to keep people in the program we cannot continue to cut the program.

One of two things are going to happen. People are either going to quit farming or they are going to get out of the program. If they get out of the program, we are not going to have any of the environmental controls and the other things we need on it. And I think this is going to be a very serious problem that we are going to have to address when the proposal for slashing these programs comes before the Congress.

Mr. O'MARA. We will get that to you, sir.

[The information follows:]

STATEMENT OF KEITH COLLINS, ACTING ASSISTANT SECRETARY FOR ECONOMICS, U.S.  
DEPARTMENT OF AGRICULTURE

Mr. Chairman and members of the Subcommittee, I welcome the opportunity to discuss the economic effects on farmers of the President's economic proposals. Mr. Chairman, your invitation requested that several specific issues be covered, including the outlook for major U.S. crops, the commodity contribution to deficit reduction from the farm and budget legislation enacted in 1990, the farm and market effects of the President's proposals and the energy BTU tax. I will address each issue, beginning with the crop outlook.

OUTLOOK OVERVIEW

The economic outlook for U.S. agriculture is generally similar to the situation prevailing during the past couple of years. Indicators of economic performance and farm household financial stress greatly improved between the mid-1980's and 1990, but the farm economy has moved sideways since 1990. One potential bright spot is the overall economy, with real Gross Domestic Product (GDP) expected to grow 3.1 percent this year and 3.3 percent next year under the President's economic package, compared with the anemic 0.6 percent during 1990-92. Over the next several years, moderate income growth will strengthen farm product demand and low inflation and interest rates will help control farm production expenses.

The President's economic stimulus package will help boost investment and consumer confidence, contributing to job growth in rural America. Rural economic activity is important to the majority of U.S. farm households. In 1991, only 20 percent of U.S. farm households received more income from farming than from off-the-farm activities.

U.S. agriculture is expected to continue benefiting from growth in international markets over the next several years. For 1992/93, U.S. agricultural exports are expected to be \$42.5 billion, slightly above last year's \$42.3 billion, and the second highest ever. Bulk exports will likely drop in value, more than offset by high value and processed product exports. U.S. export growth is restrained by slow economic growth in Japan and Western Europe and negative growth in Eastern Europe and the Newly Independent States of the Former Soviet Union (FSU).

In contrast, the developing economies are expected to grow 5-6 percent in 1993 and 1994, up from 1992's estimated 4.3 percent. Pacific Rim countries, the Middle East, and Latin America, particularly Mexico, are expected to gain.

Net cash farm income has plateaued since 1988 at \$58-61 billion. Net cash income for 1993 is projected again to be at about this level, as larger crop and livestock receipts and larger government payments offset a moderate increase in cash production expenses. Our longer term baseline income projections are for generally rising cash receipts offsetting lower government payments and higher production expenses. Consequently, nominal farm income rises 5 to 10 percent during 1994-1998, although not as fast as the rate of inflation.

Total farm asset values and farm debt have changed little since 1990, but remain much improved from the mid-1980's. No change is anticipated in the debt-asset ratio in 1993, which has been stable in the range of 16-17 percent since 1989. The ratio is expected to decline modestly during the remainder of the 1990's as farmers restrain the use of debt while asset values slowly increase.

In the mid-1980's, USDA estimated that over 10 percent of all farm businesses were vulnerable to bankruptcy; their incomes were below expenses and their debt-asset ratios exceeded 40 percent. Recent estimates show less than 5 percent of farms are now vulnerable, half the level of the mid-1980's. However, the percentage of



marginal income farms—those with negative cash incomes but debt-asset ratios below 40 percent—account for 17 percent of commercial farms, those having gross annual sales equal to or greater than \$40,000.

The Subcommittee has specifically requested an assessment of the outlook for major program crops, and I will turn briefly to that.

**Wheat Outlook.**—In the 1992/93 marketing year which will be completed in a little more than a month, world wheat production is up 3 percent, total use is down, and global wheat stocks are expected to rise. With more production and weaker use, world wheat exports are forecast down 5 percent in 1992/93, but U.S. exports are expected to rise 3 percent.

Larger U.S. exports to India, North Africa, and other countries are offsetting lower exports to China and the FSU. With strong exports, U.S. ending stocks are expected to rise slightly to 520 million bushels, a below-average level relative to use. Reflecting this, farm wheat prices are expected to average 25 cents per bushel above a year earlier.

For 1993/94, the wheat Acreage Reduction Program (ARP) is 0 percent, down from 5 percent this season. Based on winter wheat plantings and farmers' spring wheat intentions, 1993-crop seedings are forecast at 72.3 million acres, unchanged from 1992. Production may be close to this year's level, and with more intense global competition expected and uncertainty over exports to the FSU, lower exports are in prospect, leading to higher carryover stocks and lower average wheat prices.

**Feed Grain Outlook.**—Global coarse grain production rose over 5 percent in 1992/93 on the strength of the record U.S. corn crop. World use is increasing this season but only by about half as much as the increase in production, leading to higher stocks, with U.S. stocks accounting for all of the increase.

Although world coarse grain trade will be down, U.S. exports will be up 2 percent. Despite larger exports and a projected 12-million-ton increase in domestic feed use, U.S. feed grain stocks will nearly double in 1992/93. Ending stocks of corn are projected at 2.2 billion bushels, double the carryin level, which means about a 15 percent lower annual average corn price and sharply higher feed grain program costs.

For 1993/94, the corn ARP is 10 percent, up from 5 percent last year. During March, farmers indicated plans to seed 76.5 million acres to corn, down 2.8 million or 4 percent from 1992; With trend yields, production would fall about 10 percent. Prices may average slightly higher than prices for the 1992/93 crop year.

**Rice Outlook.**—Global use is forecast to exceed production in 1992/93 for the second consecutive year. However, large exportable supplies among the major exporters, including the United States, have reduced prices below a year ago.

Large U.S. supplies and lower prices are expected to keep U.S. rice more competitive in global markets, with U.S. rice exports forecast to increase by 14 percent. The U.S. season-average price is expected to be nearly one-fifth below the \$7.58 per hundredweight average of 1991/92.

For 1993, the rice ARP is 5 percent, up from 0 percent in 1992. Farmers indicated plans to plant 3.13 million acres, nearly the same as in 1992. Production is expected to be lower in 1993 with moderately higher prices.

**Oilseed Outlook.**—World oilseed production is record high in 1992/93 due to the near-record U.S. soybean crop and larger South American soybean production. EC oilseed production is down about 1 million tons. In the United States, soybean production was the second highest ever but production of cottonseed and peanuts decreased, and except for safflower, production of minor oilseeds was lower.

Little change is expected in global use of protein meals and vegetable oils in 1992/93, slowed by consumption declines in Eastern Europe and the FSU. However, U.S. soybean exports are forecast up 11 percent, spurred by reduced world supplies of other oilseeds and higher EC imports. Despite the large crop and higher stocks, strong soybean use is expected to keep the season-average soybean price close to the \$5.58 per bushel average of 1991/92.

In 1993, farmers expressed intentions to plant 59.3 million acres to soybeans, unchanged from 1992. A return to trend yields would mean lower production and stocks and higher season-average prices.

**Cotton Outlook.**—World cotton use at 85 million bales will exceed production in 1992/93. But, global stocks remain relatively high at 39 million bales, putting downward pressure on prices. Despite a smaller crop in 1992/93, U.S. cotton stocks are expected to increase by 16 percent. Total U.S. use is down as higher exports from the FSU and China reduce U.S. exports. Domestic mill use is at its highest level since the 1950's.

Even though projected U.S. stocks are below the statutory target level of 30 percent of use, farm-level U.S. prices for February averaged only 52.9 cents per pound, about equal to the loan rate. The low prices are generating record high deficiency and marketing loan benefits for cotton producers.



In 1993/94, both production and use are expected to be larger. The ARP for upland cotton is down slightly from 10 percent to 7.5 percent. Farmers plan to plant 13.4 million acres to cotton in 1993 about the same as 1992. Domestic use is likely to grow and exports increase as economies improve in Eastern Europe and the FSU and production problems in China continue. However, U.S. cotton stocks are expected to increase again in 1993/94.

*Farm Program Spending.*—Very large 1992 harvests are expected to increase CCC spending for farm programs from about \$10 billion in fiscal years 1991–92 to an estimated \$17 billion in fiscal year 1993. Outlays for all program crops are expected to increase in fiscal year 1993, led by feed grains estimated to increase by \$3.4 billion, wheat by \$0.6 billion, rice by \$0.2 billion, and cotton by \$1.0 billion. Spending on soybeans and minor oilseeds is projected to rise by less than \$50 million in fiscal year 1993 despite a near record soybean crop.

In the years ahead, we expect higher world and domestic prices and, as a consequence, lower farm program spending. Our current forecast is for CCC outlays to fall to about \$12 billion in fiscal year 1994 and remain in the \$10–\$11 billion range in fiscal years 1995–98. These estimates do not include the President's proposed reductions in farm program spending.

#### THE 1990 BUDGET REDUCTIONS

Mr. Chairman, you asked how the Food, Agriculture, Conservation, and Trade Act of 1990 and the Agricultural Reconciliation Act of 1990 (1990 Acts) affected outlays for farm price and income support programs for the 1991–95 period. The bipartisan Budget Summit Agreement in the fall of 1990 set an outlay reduction target of over \$13 billion for agricultural programs. The 1990 Acts were projected to achieve that mark in part with \$11.2 billion in reductions in farm price and income support programs. This was an estimated 21 percent reduction from projected baseline outlays of \$54.4 billion during fiscal year 1991–95, which assumed an extension of the Food Security Act of 1985 (1985 Act). The reductions were achieved with reduced payment acres, marketing assessments and loan origination fees, changes in ARP's and changes in the method of computing deficiency payment rates.

Our analysis indicates that the outlay reduction projected in 1990 continues to hold. Our current baseline projects that commodity program spending will total \$59.9 billion during fiscal years 1991–95, up \$5.5 billion from the 1990 Farm Bill baseline due in part to lower-than-expected prices for corn and cotton and in part to disaster payments and higher export program costs than anticipated in 1990.

Spending during fiscal years 1991–95 would be about \$72 billion without the provisions of the 1990 Acts. The 1990 Acts reduced farm program costs by an estimated \$2.7 billion during fiscal year 1991 and fiscal year 1992 compared with an extension of the 1985 Act. These realized savings plus outlay reductions we now project during fiscal years 1993–95 total about \$12 billion for the 5-year period, fiscal years 1991–95, slightly above the 1990 target of \$11.2 billion. For fiscal years 1991–95, outlays for feed grains are projected to be down about \$7.4 billion, wheat \$2.8 billion, upland cotton \$1.0 billion, and rice \$0.3 billion. Outlays for soybeans and minor oilseeds will be down by about \$50 million.

Beginning with the 1994 crops, deficiency payments for grains will be based on the lesser of the season-average price and the 5-month price plus 10 cents for wheat and 7 cents for feed grains. Seventy-five percent of the projected deficiency payment rate for corn and sorghum and 100 percent of the projected rate for barley, oats, and wheat must be made as soon as practicable after the end of the first 5 months of the marketing year. These provisions will reduce outlays by an estimated \$3.0 billion for feed grains and \$0.8 billion for wheat during fiscal years 1994–98.

The budget resolution period for the President's proposal is the 1994–98 fiscal years. During this period, the provisions of the 1990 Acts would account for about \$15 billion in reduced outlays for the target price commodities, compared with an extension of the 1985 Act.

The appendix to this testimony contains charts showing the projected reductions by commodity.

#### THE ADMINISTRATION'S AGRICULTURAL PROPOSALS

The Administration presented its proposed economic program on April 8, which detailed and updated the proposals presented by the President on February 17, 1993. The proposed economic package would reduce the Federal budget deficit and stimulate the economy. The proposed economic program includes reductions in farm program and other government program spending, increases in government revenues, an expansion in programs to aid low income households, and programs to increase economic growth and employment.

The President proposed reducing farm program spending by increasing the so-called "normal (unpaid) flex acreage" to 25 percent, eliminating the 50/92 and 0/92 programs, targeting deficiency payments and other program benefits to farmers with off-farm incomes below \$100,000, limiting annual payments to wool and mohair producers to \$50,000, eliminating the honey program, increasing assessments and loan origination fees on nonprogram crops and milk, and extending the current level of spending for the Market Promotion Program (MPP). The increase in normal flex acres, elimination of the 50/92 and 0/92 programs, and the increase in assessments would begin with the 1996 marketing year or calendar year for milk. The remaining proposals would become effective in fiscal year 1994.

The Administration estimates that these proposals would reduce farm program spending by \$5.5 billion during fiscal years 1994–98 with \$5.1 billion being saved in fiscal years 1996–98. The increase in unpaid flexible acreage to 25 percent and eliminating the 50/92 and 0/92 program account for two-thirds of the estimated reduction in farm program spending. Increased assessments and loan origination fees account for about a tenth and targeting deficiency payments account for slightly more than a tenth. The President's farm program proposals to increase normal flex acres to 25 percent, eliminate 50/92 and 0/92 and target payments to farmers with off-farm incomes below \$100,000 would reduce Commodity Credit Corporation (CCC) outlays for feed grains by an estimated \$2.3 billion, wheat by \$1.3 billion, upland cotton by \$0.4 billion, and rice by \$0.4 billion. Outlays for oilseeds would be reduced by about \$40 million because of higher loan origination fees.

The Administration's proposals for outlay reductions should be useful to the Subcommittee in achieving the House Budget Resolution goals. Therefore, I will discuss the Administration's major proposals and their expected effects.

*Eliminate 0/92 and 50/92.*—At their inception, the 0/92 and 50/92 provisions were projected to be outlay neutral. Farmers that were planting just to receive a deficiency payment could instead idle acreage under the provision and receive the same payment. To avoid increased outlays, no payments were to be made on 8 percent of payment acres, which was the estimate of average underplantings on which payments were not received prior to the introduction of 0/92 and 50/92. Program experience indicates that use of these provisions has been higher than first anticipated, resulting in an increase in paid idle acreage in place of unpaid idle acreage.

In 1992, farmers placed 11.2 million acres in 0/92 and 50/92 of which 0.3 million acres were planted to minor oilseeds. About 7 percent of the feed grain base, 6 percent of the wheat base, 3 percent of the upland cotton base, and 11 percent of the rice base on all farms in compliance with ARP requirements were in 0/92 and 50/92 in 1992. Payments to producers, who participated in 0/92 and 50/92 in 1992, were \$209 million for feed grains, \$91 million for wheat, \$41 million for upland cotton, and \$72 million for rice. Participation in 0/92 and 50/92 is expected to increase as CRP contracts expire beginning in 1996.

Eliminating the 0/92 and 50/92 options would cause many farmers to increase plantings in order to receive deficiency payments on acres they formerly idled. Higher plantings would lower prices and raise deficiency payments. Higher ARP's would have to be used to make elimination of this provision production neutral and to reduce outlays, thereby replacing the formerly paid idled acreage with acres idled under the ARP. For most crops, ARP increases of 5–10 percent would leave production about unchanged if 0/92 and 50/92 were eliminated. Eliminating 0/92 and 50/92 beginning with the 1996 crops would reduce CCC outlays by between \$1.1–1.8 billion, with the lower savings associated with normal flex acres of 25 percent and the upper savings associated with 15 percent. Producers would still be permitted to place land in conserving use and protect their crop acreage base.

*Increase Normal Flexible Acres to 25 Percent of Crop Acreage Base.*—Increasing normal flex acres provides a direct reduction in deficiency payments by reducing payment acres. Because this option reduces the attractiveness of farm programs, there is also a decline in participation, which also reduces outlays. This option for reducing payments is probably the most efficient and effective way to reduce deficiency payments. It is effective because changes in the market or actions by the producer are not likely to reduce the savings. Regardless of where the market price moves in future years, the percentage reduction in payments is maintained unless there is base acreage expansion or increased participation, both of which are unlikely.

Increasing normal flex acres is efficient because this option opens up more of the producer's permitted acres to planting decisions that are primarily determined by market fundamentals. And, farmers use this flexibility. Normal flex acres accounted for 84 percent of all acres flexed in 1992. In 1992, farmers flexed 4.9 million acres to nonprogram crops. An additional 3 million acres were flexed from one program crop to another. The end result has been that consumers benefited from greater pro-



duction of crops that farm programs have made scarcer than otherwise, and program crop farmers benefited from being able to plant higher return alternative crops and offset some of the reduction in deficiency payments.

The Administration estimates that increasing normal flex acres to 25 percent beginning with the 1996 crops would reduce CCC outlays during fiscal years 1994–98 by \$2.3 billion, but the savings could be as high as \$2.8 billion, with about half of that coming from feed grains.

*Targeting Deficiency Payments and Other Program Benefits to Farmers with Off-farm Income Less Than \$100,000.*—This option is similar to payment limitation provisions in that it is an option for reducing spending by changing the distribution of payments to producers. This version of targeting excludes only those who do not principally earn their living from farming and have very high off-farm incomes. If the proposal begins with the 1994 crops, the Administration estimates it would reduce farm program spending by \$610 million during fiscal years 1994–98.

Admittedly, targeting is difficult to administer and outlay reductions are difficult to achieve, and therefore, to estimate. The large difference in estimated savings between USDA and the Congressional Budget Office stems from different assumptions of how effective those with high off-farm incomes would be in restructuring their farm enterprise to avoid a loss of benefits.

As proposed, this option would apply to producers. The most relevant database for estimating the effects is to use Schedule F filings with the IRS. Recent data suggest that less than 2 percent of all Schedule F filers have off-farm income in excess of \$100,000 per year.

*Assessments.*—The President proposed increasing assessments and loan origination fees on nonprogram crops and milk by 67 percent beginning in 1996. This would reduce support to nonprogram commodities similar to that proposed for target price crops. These higher assessments and loan origination fees would reduce CCC net outlays by an estimated \$540 million during fiscal years 1994–98 with all of the savings occurring in fiscal years 1996–98.

The loan origination fee on CCC oilseed price support loans would increase from 2 to 3.33 percent or from \$0.10 per bushel for soybeans to \$0.17 per bushel. The Administration estimates this would reduce CCC outlays for oilseeds by about \$40 million during fiscal year 1994–98.

#### EFFECTS OF PROPOSED BUDGET REDUCTIONS ON FARM INCOME

The Subcommittee requested an appraisal of the effects of outlay reduction and other proposals on farm income. While the Administration has proposed reductions in CCC farm program spending of \$5.5 billion over the fiscal years 1994–98 period, the Congressional Budget Resolution has set a target of about half that size. Using the Congressional budget resolution target for farm program spending cuts, we have estimated aggregate U.S. farm income during 1994–98 taking into account the effects of both the agricultural and the major nonagricultural proposals on agriculture. The estimated effects on farm income are based on President Clinton's Economic Plan and will change depending on the mix of programs Congress adopts. The estimated changes in farm income exclude the effects of the proposed increase in the Earned Income Tax Credit (EITC) and the Investment Tax Credit.

We estimate net farm income declines modestly during 1994 and 1995. The reductions increase over the next several years, peaking in 1997 and 1998 when the commodity program proposals and the energy tax are fully implemented. The annual reductions begin to decline thereafter. During the 1994–98 period, our projections show net farm income averages about \$1.5 billion per year lower compared with our current baseline. This would leave farm income about equal to recent levels. One-third of the reduction is due to lower government payments and two-thirds due to higher farm production expenses. Alternative private sector estimates of interest rates would lead to smaller reductions in farm income.

Several factors combine to increase total farm production expenses. The energy tax raises fuel costs directly and other input costs indirectly, based on their embodied energy component. At 1991 farm production levels and energy use rates, annual production expenses due to the energy tax when fully phased in could be as much as \$900 million higher. However, substitution of more energy efficient practices and equipment over time would reduce this estimate. Also, feedstock energy prices may be lower than otherwise to the extent that the energy tax leads to overall energy conservation in the U.S. economy. This would help offset higher fuel costs in agricultural chemical production.

Interest and inflation rates are other cost factors. The Administration's proposals are expected to raise overall economic growth, which will slightly raise inflation rates and interest rates. This will increase the costs of farm inputs that are inflation

sensitive and raise overall interest expenses slightly, mainly for short-term nonreal estate debt.

Several private forecasting firms project annual average interest rate reductions of 0.5 to 1.25 percentage points due to deficit reduction. Such rate changes would reduce farm interest expenses by \$0.75 to \$1.5 billion annually, rather than the increase we project.

Net farm income is a measure of economic activity. It is not a measure of household farm income. The projected decline in net farm income will translate into a reduction in household net farm income for many producers. However, some farm households will have offsetting reductions in tax liabilities due to the Administration's proposed increase in the EITC and the Investment Tax Credit. Changes in tax liabilities are not accounted for in net farm income.

Another point is that the initial income reductions due to lower income support will not persist for all time. Lower support reduces the return to farming compared with other industries. That ultimately means reduced investment in agriculture and reduced asset values. Farmers will also adjust production practices and reduce output. These changes will eventually result in returns on farm assets that are about the same as before the income support reductions and are comparable to similarly risky nonfarm investments.

The Chairman asked which farms would face the greatest financial stress under the budget reduction proposals. This is a very difficult question because a producer's financial condition depends on a wide variety of factors. The greatest stress probably would be faced by those producers that are already in financial stress and incur the highest production cost increases combined with the greatest reduction in program benefits.

Our financial stress data indicate that farm operator households having negative farm incomes and high debt-to-asset ratios account for about 5 percent of all operator households. Many of the households with very low or even negative farm incomes earn considerable income from off-farm employment. Therefore, considering only the farm operator households with annual sales above \$40,000, the vulnerable farms currently are most prevalent in the Southeast, Delta, and Southern Plains regions, followed by the Northern Plains. Vulnerability is greatest for livestock and poultry producers. For crops, vulnerability rates are slightly above average for grain producers and higher still for cotton producers.

It is difficult to draw a conclusion on vulnerability rates alone as a measure of overall financial stress for a class of commodity producers. For example, while cotton and poultry show higher than average vulnerability rates, the median net farm income per farm operator household is somewhat above the U.S. average for poultry producers and nearly double the U.S. average for cotton producers. Also, if interest rates decline under the deficit reduction proposals, the vulnerable farm households will be substantial beneficiaries. Although vulnerable households account for a small percentage of farms, they hold more than 20 percent of farm debt. Vulnerable farms are also likely to qualify for the EITC.

The target price crops are likely to face the largest reductions in support and these crops have some of the highest rates of energy use in production. As a percent of variable production expenses, energy costs are greatest for rice followed by sorghum, cotton, and peanuts, then wheat, corn, the other feed grains and soybeans. For livestock, energy intensity is about half to three quarters the rate of the major field crops.

Considering all the above factors, it seems likely that farm operators producing target price commodities, particularly cotton and rice, that are located in the South and Southern Plains, and that irrigate a high portion of their crops, and that have high debt levels are likely to face the greatest impact of the deficit reduction proposals. However, many low income farms are likely to face little change in the household incomes and may even benefit due to the proposed expansion in the EITC.

#### OTHER ADMINISTRATION PROPOSALS THAT WILL AFFECT AGRICULTURE

Several of the Administration's nonagricultural proposals affect agriculture and should be mentioned to provide a context in which the commodity proposals are evaluated. Let me stress none of these proposals are directly targeted at farmers. They affect all sectors of the economy.

**Energy Tax.**—The energy tax discussed above with production expenses is an important revenue proposal of the Administration. U.S. agriculture is slightly more energy intensive than nonagricultural industries and consumes about 2 percent of the Nation's energy. Farmers used about 1.4 billion gallons of gasoline in 1991, mainly in farm trucks and older equipment. Gasoline is a principal fuel on smaller farms. About 2.8 billion gallons of diesel fuel was used in 1991, the major fuel on large



and mid-size farms for field operations. LP gas, natural gas and electricity are also used for drying, irrigating and heating structures.

When fully phased in, the energy tax would increase farm expenses on fuels and oils by \$400 million per year or about 8 percent at current rates of use. Electricity costs would rise by \$100 million per year or about 4 percent and most other inputs would rise in cost as they involve energy in their production and distribution. Based on current input use, these indirect costs could be as high as \$400 million, bringing direct and indirect costs to as much as \$900 million. The actual increase would likely be less than this for two reasons. First, farmers will use energy more efficiently over time, including changes in equipment, crops planted, cultural practices and fuels used. Second, feedstock costs important for agricultural chemicals, may decline as less energy is used nationally.

*Inland Waterway User Fee.*—The user fee will add \$1.00 per gallon to the tax on fuel used by barge operators who transport 23 percent of all grain and 48 percent of grain exports. When fully phased in, the proposed inland waterway user fee is expected to produce revenues sufficient to cover all the costs of operating and maintaining the system, which is now heavily subsidized by the taxpayers.

Corn, soybeans, and wheat are the primary agricultural commodities transported on the inland waterway system. We estimate that the waterway fee will increase the average cost of shipping a bushel of corn to the Gulf by 6.3 cents. Estimated tax receipts from agricultural commodities moving on the water system are about \$140 million.

Although the proposed increase in the fuel tax will be collected from barge operators, at least some of the increased costs of operation will be passed back to farmers in the form of lower prices received for commodities shipped on barges. The user fee will not be fully passed back as shippers switch to alternative modes of transport, elevator and large operators absorb part of the cost increase, and end users pay more for the product.

The waterway tax would likely lead to higher deficiency payment outlays which would offset some of the farm price decrease. On balance, the fee is expected to generate more revenues from agriculture shipment than the increase in deficiency payments.

*Income Tax Provisions.*—The Administration's tax proposals will benefit farmers. Most farmers will be eligible for the permanent investment tax credit for small businesses. This will reduce the cost of capital and lower Federal income tax liability for farmers and rural nonfarm businesses. Farmers spend \$12–14 billion annually on new equipment. Because the percentage rates of the tax credit decline in 1995, the biggest spur to investment will be in 1993 and 1994. Based on recent farm equipment purchases, the tax credit would potentially total about \$750 million in 1993. Potential benefits are smaller after 1994. During 1994 and 1995, these benefits are likely to offset the costs imposed on producers by the energy tax and the farm program proposals, which have their largest impacts in 1996 and beyond.

Farmers will benefit from extension of the 25 percent deduction for health insurance costs and changes to the EITC. The proposal to simplify and expand the EITC would benefit low-income workers and self-employed individuals in rural areas, including farmers. This proposal would mean more disposable income and a better quality of life for qualifying low-income farm and nonfarm households. The high incidence of working poor in rural areas makes this proposal especially important for rural America. Since farm household poverty rates are nearly twice the national average, this provision will be important for helping to relieve farm financial stress.

As an example, a farm household with two children and an earned income of \$11,000 in 1995 would have an EITC of \$3,375, \$1,865 more than the 1993 credit. This benefit would likely offset the proposed energy tax and farm program effects on income.

*Rural Development.*—The economic stimulus package includes specific rural development initiatives that provide needed assistance for the special concerns of rural areas. For example, the Administration proposes fiscal year 1993 supplemental spending authority for an additional \$470 million in loans and \$280 million in grants for the Rural Development Administration to help rural communities obtain water and waste disposal systems and comply with clean water standards. In fiscal year 1994, the budget recommends loan increases of \$280 million and grant increases of \$150 million over fiscal year 1993 appropriations. When this money is spent on constructing water and waste systems, the community infrastructure is improved, rural communities become better places to live, and jobs are created. Employment impacts will vary by project but typically, 17 direct and indirect jobs are created for each \$1 million in construction outlays. The fiscal year 1993 proposal alone would create nearly 13,000 jobs for rural farm and nonfarm residents over a 5-year period.

Other proposals will increase community facility and business and industry loans, increase loans and grants to help repair or rehabilitate rural low income housing and to foster rural single family home ownership. Still other proposals focus on protecting people and the environment. Stimulus spending of \$85 million is proposed for protective watershed projects and hazardous waste clean-up at aging Federal agricultural research sites.

#### CONCLUSION

The Subcommittee has a difficult task ahead. Deficit reduction and economic growth will benefit Americans. Farmers that can adjust and those that will benefit from income tax provisions or stronger rural economic growth may incur minimal income loss or even gain, particularly small, low-income households. Also, if deficit reduction leads to lower interest rates and lower exchange rates, these developments would benefit many farmers.

Finally, the effects of deficit reduction proposals highlight the need for demand expansion. A stronger U.S. economy can promote faster global economic growth. NAFTA and the Uruguay Round negotiations under the auspices of the GATT also offer opportunities for expanded trade. Achieving these agreements would go far in increasing farm income.

Mr. Chairman, that completes my testimony and I will respond to any questions you or other members may have.

TABLE 1. COMPARISON OF FISCAL YEARS 1994-98 BUDGET SAVINGS ESTIMATES UNDER THE ADMINISTRATION'S PROPOSALS FOR PRICE AND INCOME SUPPORT PROGRAMS

(In millions of dollars)

Proposal	ADMIN	CBO	FAPRI	H. RES
Increase unpaid flexible acres to 25 percent in 1996 .....	2,300	2,047	.....	.....
Eliminate 0/92 and 50/92 programs starting in 1996 .....	1,460	1,037	3,046	.....
Increase assessments on nonprogram crops in 1996 .....	540	644	494	.....
Extend Market Promotion Program cut .....	260	234	100	.....
Target payments to farmers with off-farm incomes below \$100,000 .....	610	262	<sup>1</sup> 262	.....
Limit payments on wool and mohair to \$50,000 per person .....	278	129	56	.....
Eliminate honey subsidies .....	35	61	76	.....
Subtotal .....	5,483	4,414	4,034	2,700

<sup>1</sup> CBO estimate.

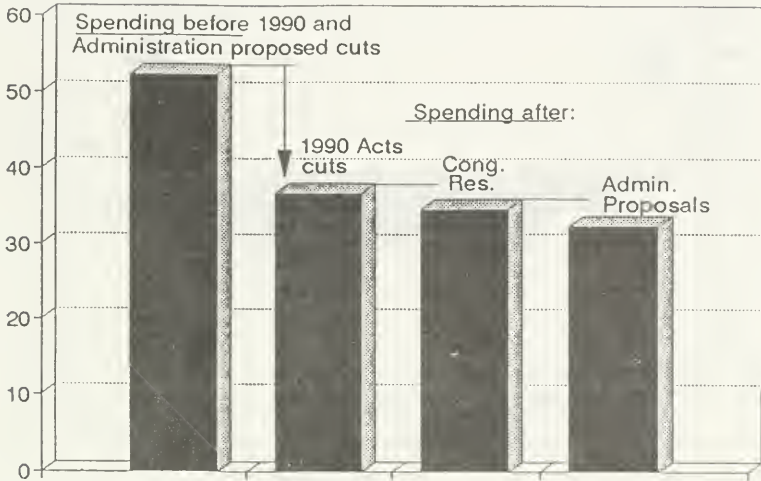
Source: CBO and FAPRI testimony before the House Agriculture Subcommittee on General Farm Commodities, March 23, 1993.

CBO=Congressional Budget Office.

FAPRI=Food and Agricultural Policy Research Institute, University of Missouri and Iowa State University.

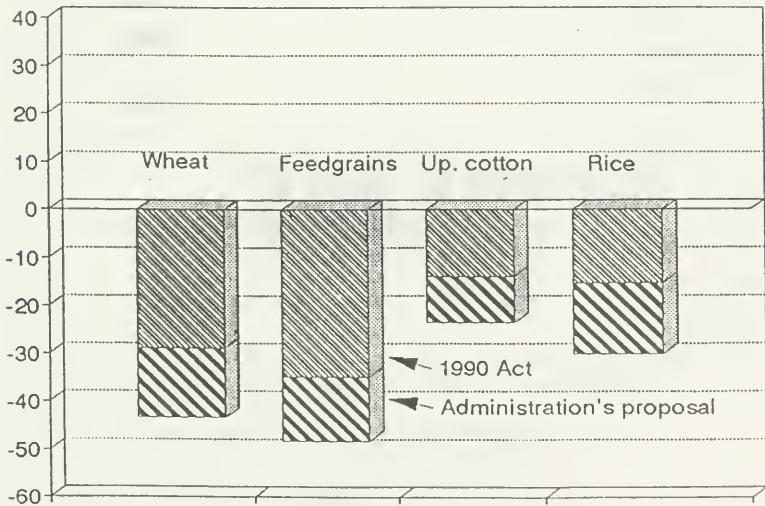
**TOTAL CCC OUTLAYS & REDUCTIONS, 1994-98**  
 Target price commodities & oilseeds

Bil. \$



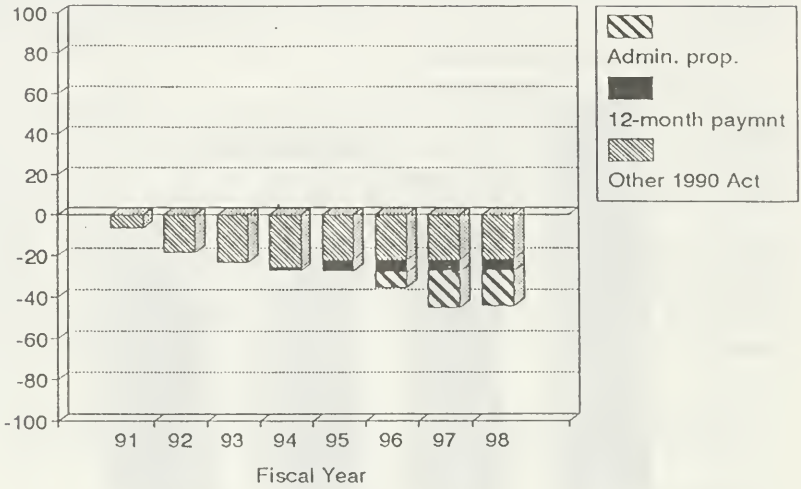
**PROJECTED CCC OUTLAY CHANGES, FY1994-98**  
 Annual average change from 1985 Act Baseline

% Change



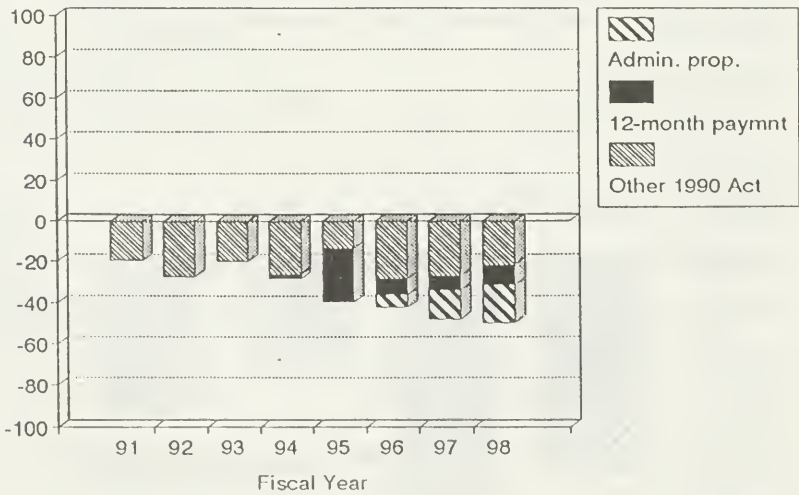
## WHEAT PROGRAM OUTLAY CHANGES

% change



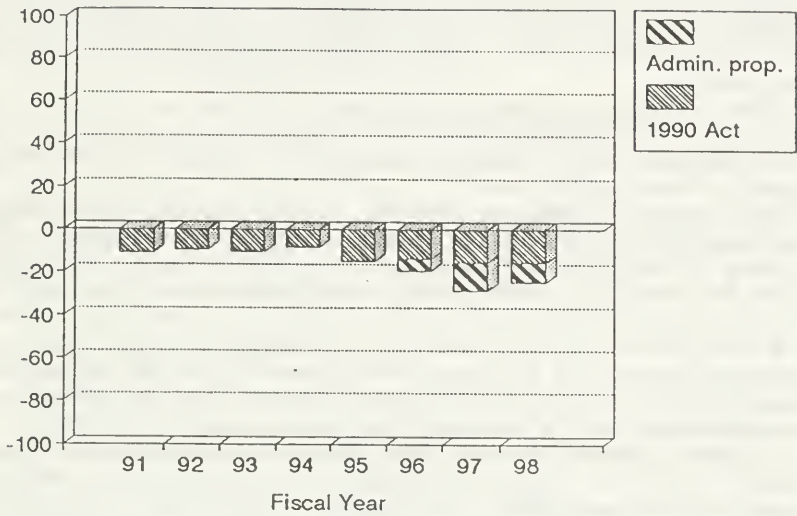
## FEED GRAIN PROGRAM OUTLAY CHANGES

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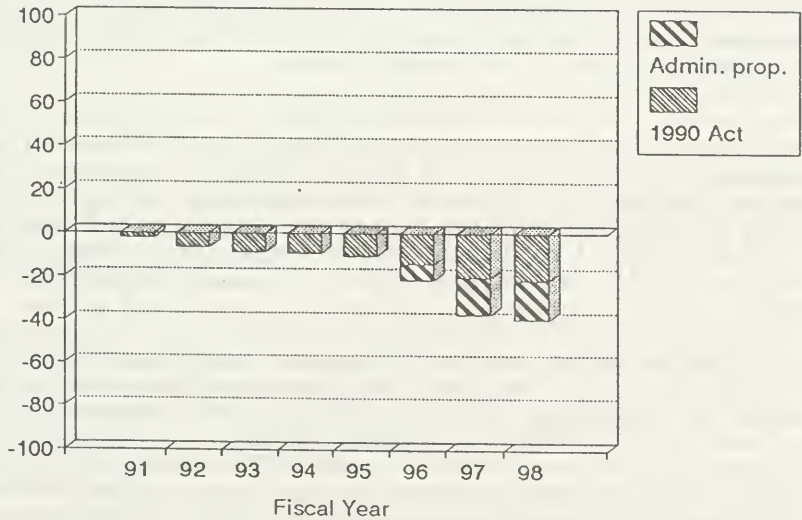




# UPLAND COTTON PROGRAM OUTLAY CHANGES



# RICE PROGRAM OUTLAY CHANGES



## USDA REORGANIZATION

Senator BOND. Now, another item on terms of planning and reorganization, and I would like to address this to Mr. Bridge and Mr. Weber. The Secretary has talked about streamlining USDA to create a single farm service, and I would like each of you to address the question.

First, were you involved in the planning of the reorganization effort? And No. 2, do you believe your employees are qualified to handle another agency's technical questions? I might ask Mr. Bridge first.

Mr. BRIDGE. To date we have not been significantly involved in the Secretary's planning arrangements. At this very moment he is holding a meeting with agency heads downtown, and I suspect that when Mr. Rominger and others get confirmed we will be involved in developing those plans.

I think there is some level of cross training that can take place among and between the agencies that can be helpful in terms of improving our service, for instance, at the county level when producers come in to sign up for various programs and assistance.

Of course, the Soil Conservation Service is a professional agency with a lot of soil scientists, engineers, agronomist, and biologist types. I do not see those functions easily taken over by our sister agencies. Now, much more coordination and data sharing obviously is a possibility.

Senator BOND. Well, that is my main concern because, frankly, I am a great fan of SCS. Some of my friends who work in the Soil Conservation Service, when you ask them what they do they say, I do dirt. But that is a humorous way of understating the tremendous training and background that goes into being in the Soil Conservation Service. And I have grave doubts as to whether somebody else can come in and do those jobs. On the other hand, how are your people qualified to do the ASCS work?

Mr. BRIDGE. I would contend that many of the things that ASCS does are very complex. I moved into some of that myself and tried to understand the various programs. But I do think that the bottom line is there are some real opportunities here to do some integration, and we will obviously be interested in helping the Secretary figure out those things that can be logically linked together.

Senator BOND. I hope there will be a great deal of input from your agency. Mr. Weber, how would your people do dealing with dirt?

Mr. WEBER. I would agree with Mr. Bridge that we are not going to be able to do the technical things that they do with the dirt. Likewise, as he said, they would have some problems handling our programs. I think there are some efficiencies to be achieved in support services by bringing the agencies together.

Certainly, there are functions which ASCS can best perform just as SCS can best carry out functions with regard to the dirt. But it still seems as though it could be done under one agency. It is just that there would be functions that would continue to operate as they operate today.

Senator BOND. I think we are going to find a great deal of that. I think it is probably a very low stump to jump, but if you meas-

ured how long and how many resources it would take to train the average U.S. Senator to do the work of the ASCS, I think you would find it would not be economical.

Now, I trust that the other Agriculture Department employees would have a higher level of skill. But I do not see that that would be a particularly fruitful undertaking.

#### CONSERVATION RESERVE PROGRAM STUDY

Let me move now to the area that the chairman brought up, because we are very interested in the Conservation Reserve Program and conservation generally. Mention was made, I guess you did, Mr. Weber, of I believe we mandated in 1990 farm bill a study of what happens after CRP.

Where is that study? What is the progress on it and where are we going? When is it going to come out?

Mr. WEBER. The task force is meeting and making that study right now. Mr. Bridge may be able to speak more specifically to it.

Mr. BRIDGE. All I can tell you is that there is a task force underway, and it involves a number of agencies within the Department. I do not have a date in terms of when we will complete that study, however we could try to get it to you.

Senator BOND. We are sitting here in 1993, and land is going to start coming out in 1995 and 1996, and we do not know which way we are going?

I suggest it is time to get a little more enthusiastic and committed to that study because we have made a tremendous investment, as the chairman pointed out. And if this land goes back into row crops, we have not made a great deal of progress. And I hope that you would keep this committee, and the chairman, and the ranking member, and particularly my staff advised as to what you are doing, because I really think we made too much of an investment to let it go.

#### ALLEY CROPPING

One of the things that we added in the 1990 farm bill was to allow an extension of the contract for 5 years if you plant hardwood trees and alley cropping. With the money frozen, are there dollars available if somebody wants to extend the contract and go into alley cropping this year?

Mr. O'MARA. I am sorry, Senator Bond?

Senator BOND. Are there dollars available if somebody wants to go into alley cropping? Can you sign up?

Mr. WEBER. Senator Bond, I do not have an answer for you right now, but we will get back to you on that.

Senator BOND. Would you tell me how many acres are in alley cropping? Do you know, Mr. Bridge?

Mr. BRIDGE. No, I do not.

Mr. WEBER. Senator Bond, currently about 6.8 percent of the acreage is in trees, under a 15-year contract.

Senator BOND. That is 6 percent in a 15-year contract?

Mr. WEBER. About 7 percent.

Senator BOND. What is the total acreage in CRP?

Mr. WEBER. 36½ million acres.

Senator BOND. But I mean in trees?

Mr. WEBER. That would be a little over 2 million acres of trees.

Senator BOND. But that's the total amount in trees. I mean, how much is under the alley cropping position, because the 6 percent sounds like the total acres planted.

Mr. WEBER. That is the total acreage in trees.

Senator BOND. But what I am asking is the specific provision where they are allowed to alley crop and extend. Why do you not get back to me on that because this is one of the things. The chairman and I have made some visits with ARS in Booneville, AR, and we have got some expertise in Columbia, MO. And if you want an effective way to move highly erodible land out of row crops over time, alley cropping and establishing hardwood, knot wood, and other trees in it seems to me to be so obvious that we cannot figure out why nobody has told us about it.

Has anybody got any plans? Has there been any effort to tell farmers about the opportunities?

Mr. WEBER. Certainly there has been.

Senator BOND. Who is doing it?

Mr. WEBER. ASCS has been advising producers of this opportunity.

Senator BOND. Could you share with us what you are doing because still a lot of farmers in my State do not know anything about it. We would like to see what you are doing.

Mr. WEBER. At this moment I cannot tell you exactly what we are doing, but we will certainly furnish that information to you.

Senator BOND. I understand this is a special little area, but right now it is one of the few things that I see that is coming down the pike.

#### ACP ASSISTANCE ON CRP LAND

Let me ask another question. Can a landowner, if say that landowner wanted to move highly erodible cropland that has been in the CRP ultimately into combination grazing and forestry production options—one of the things that we need in many parts of our State would be adequate water. Can a landowner now build ponds, or is it impossible to get through the permits and all that, and the restrictions in the law that would enable that landowner to bring the land out of CRP and put it into pasture? Mr. Bridge?

Mr. BRIDGE. Randy, you may have to help me on this, but I believe that currently the land under contract with CRP is not eligible for ACP cost sharing, et cetera. I think this is an issue that we have to look at in terms of the last year or 2, as land begins to move out of CRP. We need to get the conservation practices established on that land, be they terracing, water distribution systems, or other approaches that bring it back into economic use and perhaps keep it out of row crops, which we intend to do. I do not think there are big problems related to permits and 404 activities.

Senator BOND. But do we need to make changes in the law to enable it?

Mr. WEBER. We currently have that kind of practice available through the Agricultural Conservation Program. It is available only to livestock producers, and if a producer is going to start a livestock



operation coming out of CRP, we have a little bit of a problem, something we need to work on and see if we cannot work it out.

Senator BOND. I think these are some areas we need to be actively exploring. We will be looking forward to working with you on them. Let me ask just one last question, if I can impose on the chairman for one more question.

#### WETLANDS RESERVE PROGRAM

Wetlands Reserve Program—what have you found as a result of the pilot program? Any problems with it? And do you have adequate funds for technical assistance in the wetlands reserve?

Mr. BRIDGE. A general observation is that the Wetlands Reserve Program has been extremely popular. We had signups and bids come in that far exceeded the available signup capacity or the funding. We have worked out adequate arrangements with ASCS in terms of funding for our technical services.

Senator BOND. You do have adequate services, and in terms of achieving its goals are you satisfied with the way the program is working?

Mr. BRIDGE. My evaluation would be yes, we are getting the right kinds of lands into reserve.

Senator BOND. Thank you, gentlemen. Thank you, Mr. Chairman.

Senator BUMPERS. Senator Kohl.

#### REDUCTION IN ADMINISTRATIVE EXPENSES

Senator KOHL. Thank you very much, Mr. Chairman. I have a couple of questions for you, Mr. O'Mara.

Mr. O'Mara, do you believe the programs within the jurisdiction of the Under Secretary of International Affairs and Commodity Programs could withstand further reductions in administrative overhead? And will administrative overhead be cut as a result of the reorganization that Secretary Espy has proposed?

Mr. O'MARA. I think it is a reality, Senator Kohl, that further administrative overhead reductions will have to take place. Over what time period and in what way is still not decided. Part of the approach will come with the development of the Farm Service Agency and the combination of ASCS, the SCS, and some parts of the Farmers Home Administration to achieve the savings.

As I said before you arrived, Mr. Rominger, who will be confirmed shortly I think, will be given charge of the reorganization project and the creation of this Farm Service Agency in particular. And as part of his deliberations, he is going to obviously look into the effect of administrative savings as this idea develops.

Senator KOHL. You do not know how much money we are going to cut and how?

Mr. O'MARA. How much money we are going to cut in overhead and administrative expenses? I would ask Mr. Schroeter to respond for the Foreign Agricultural Service and Mr. Weber, if you do not mind, on ASCS.

Senator KOHL. That is all right.

Mr. SCHROETER. On the FAS side, Senator, the budget proposes a decrease of \$1.9 million for fiscal year 1994, which equates to a 3-percent reduction in administrative costs.

Senator KOHL. All right.

Mr. WEBER. In ASCS, we are also making the 3-percent reduction in certain administrative expenses, in accordance with the President's initiative. For fiscal year 1994, our regular salaries and expenses account would be declining over the amount appropriated for fiscal year 1993 by around \$6 million.

Senator KOHL. \$6 million?

Mr. WEBER. Yes.

#### USDA STAFFING LEVELS

Senator KOHL. All right. Thank you very much. Mr. O'Mara, we have heard a lot of criticism in the media recently about the number of USDA employees increasing as the total number of farmers in our Nation decreases. For example, in 1960 there were about 100,000 USDA employees, and 6.6 million farms. But by 1990 the number of USDA employees had increased to 129,000 from 100,000, while the number of farms had decreased from 6.6 million to 2.1 million.

So, could you explain to the American people, if they were listening here today, how it is possible for the number of farms to have gone down by so many and yet the number of USDA employees to have gone up from 100,000 to 129,000?

Mr. O'MARA. Well, I will do my best, Mr. Kohl. I only have responsibility for one part of the Department. Generally speaking, since the earlier period that you mentioned, there has been a considerable increase in the food assistance programs in the Department which has increased the number of necessary personnel.

There has been an increase, and in fact the Secretary has already requested additional people yet this year, to work in FSIS to improve meat inspection. There, I presume, has been expansion in other areas of the Department that relate to activities which deal with research.

In the area of ASCS and FAS and OICD, I do not think there has been any substantial expansion. There has been, more or less, the maintenance of levels over the last some years.

But certainly the growth in personnel has come in areas of the feeding programs and perhaps even the Forest Service.

Senator KOHL. Would it be possible to estimate, if the number of employees were to be reduced to 115,000 or 117,000, what would happen to the level of services USDA provides to this country? Do you think it would be seriously impaired?

Mr. O'MARA. I do not even know how to surmise an answer to that question, sir. I can certainly provide to you the comparison with specific numbers and where agencies in the department have grown over that time period if you would like.

Senator KOHL. If you could give me some information.

[The information follows:]

**USDA STAFF YEARS**  
(Adjusted for Comparability)

	Fiscal year—											
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
<b>Science and Education:</b>												
Agricultural Research Service .....	8,335	8,108	8,112	8,017	8,128	8,150	8,200	8,207	8,107	8,332	8,150	8,100
Cooperative State Research Service .....	130	128	136	148	150	165	167	178	199	200	230	260
Extension Service .....	176	172	174	179	173	173	171	176	191	218	180	180
National Agricultural Library .....	171	153	160	177	176	190	202	202	209	216	209	209
<b>International Affairs and Commodity Programs:</b>												
Agricultural Stabilization and Conservation Service .....	2,772	2,779	2,816	2,936	3,169	3,288	3,295	3,297	3,248	3,353	3,339	.....
Foreign Agricultural Service .....	818	812	826	803	804	832	851	855	873	898	908	898
Office of International Cooperation and Development .....	205	195	200	215	218	199	187	192	180	187	205	208
<b>Natural Resources and Environment:</b>												
Forest Service .....	41,850	40,501	39,185	36,918	36,744	38,830	40,913	42,341	42,220	43,427	40,850	41,237
Soil Conservation Service .....	14,156	13,959	13,612	12,894	12,395	13,747	13,954	13,519	13,111	13,524	14,177	.....
Farm Service Agency: Farm Service Agency .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	28,181
Small Community and Rural Development:												
Farmers Home Administration .....	11,194	12,301	12,118	12,133	12,289	12,235	12,571	12,447	12,327	12,261	12,225	.....
Rural Development Administration .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	140	402	402
Rural Electrification Administration .....	653	626	598	566	524	520	533	526	510	509	550	520
Office of Rural Development Policy .....	30	31	26	5	.....	.....	.....	.....	.....	.....	.....	.....
Federal Crop Insurance Corporation .....	1,418	1,314	1,196	1,095	979	841	862	854	846	826	865	845
<b>Food and Consumer Services:</b>												
Food and Nutrition Service .....	2,335	2,220	2,171	1,995	1,879	1,885	1,907	1,931	1,907	1,962	1,979	1,979
Human Nutrition Information Service .....	78	73	79	86	90	89	90	89	94	103	110	110
<b>Marketing and Inspection Services:</b>												
Federal Grain Inspection Service .....	939	884	846	779	768	788	816	802	734	680	750	750
Animal and Plant Health Inspection Service .....	4,850	4,763	4,812	5,066	5,204	5,480	5,633	5,815	5,891	6,244	6,530	6,470
Food Safety and Inspection Service .....	9,612	9,580	9,719	9,292	9,353	9,426	9,367	9,432	9,533	9,642	9,600	9,877
Agricultural Cooperative Service .....	76	69	65	63	63	61	65	67	69	70	69	69
Agricultural Marketing Service .....	4,211	4,219	4,137	4,095	3,996	4,128	4,130	4,100	4,266	4,484	4,273	4,300
Packers and Stockyards Administration .....	183	194	187	183	187	194	183	187	190	186	191	191
<b>Economics:</b>												
Economic Research Service .....	903	876	866	846	813	791	792	784	773	804	842	762
National Agricultural Statistics Service .....	1,142	1,154	1,125	1,080	1,059	1,054	1,059	1,049	1,104	1,162	1,155	1,145
World Agricultural Outlook Board .....	28	29	29	26	26	27	28	27	27	30	35	35

**USDA STAFF YEARS—Continued**  
(Adjusted for Comparability)

	Fiscal year—											
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Administration:												
Office of the Secretary .....	85	95	96	89	75	77	87	96	90	86	97	97
Alternative Agricultural Research and Commercialization .....	1,923	1,847	1,909	1,913	1,948	1,989	2,071	2,159	2,245	2,375	2,528	2,500
Departmental Administration .....	79	78	76	71	68	70	74	74	71	70	76	76
Office of Budget and Program Analysis .....	171	167	155	156	151	149	141	148	143	139	156	156
Office of Public Affairs .....	886	879	851	820	818	835	860	834	817	876	850	850
Office of the Inspector General .....	348	377	371	347	327	342	359	366	382	402	420	408
Office of the General Counsel .....												
Total, USDA .....	109,773	108,598	106,665	102,997	102,579	106,552	109,567	110,754	110,357	113,405	112,145	110,849



## COMPLEXITY OF ASCS PROGRAMS

Mr. O'MARA. I could have Mr. Weber talk specifically to ASCS.

Mr. WEBER. Senator Kohl, with regard to ASCS, one of the things that has happened over the last several years is the complexity of the programs has increased considerably. The level of participation in our programs has also increased. For instance, prior to 1980, average annual program costs were about \$3 billion. During the 1980's, that increased to some \$16 billion annually.

We have also had the implementation of the payment limitation and all of the additional activity under the law, which has resulted in a substantial increase in workload in the ASCS. Certainly ASCS will be involved in the President's initiative to cut Federal employment over the next several years by 100,000 people, and we will work to achieve our share of the reduction through the reorganization and through streamlining our rules and regulations and trying to reduce paperwork.

We are hopeful we can get the job done with fewer people and still service the farmers as we have serviced them in the past.

## WETLANDS RESERVE PROGRAM

Senator KOHL. All right. Mr. Weber, the President's budget requests about \$370 million for the Wetlands Reserve Program for fiscal year 1994. We appreciate that request and the President's obvious dedication to meeting the nationwide goals of this program. I believe the program provides an excellent opportunity for farmers to voluntarily restore and protect valuable wetlands and to receive payment at the same time for doing so.

Last year, during the appropriations process, there were concerns raised about the ability of USDA to spend the full amount requested for the program. I believe that the interest in the program shown by farmers in the pilot States should help alleviate many of those concerns this year. I believe it is time that this program be expanded nationwide as envisioned in the 1990 farm bill.

The success of the Wetlands Reserve Program depends in part on the promotion of it. I have seen many times in my experience that new products fail because they have not been adequately promoted or explained to the intended clientele, and I believe this is also partially true for Government programs. Despite the success of the pilot program in Wisconsin, for example, I have been concerned to find the general lack of awareness of the Wetlands Reserve Program among farmers in Wisconsin.

As this program expands nationally, I would like to know what efforts USDA has in mind to promote or otherwise raise the awareness of this program and its benefits among the intended clientele, our farmers.

Mr. WEBER. I certainly agree with you that it has been a very successful program. In the rather limited pilot program we had, we certainly received applications on considerably more acreage than we were able to approve. And I can assure you that as we expand into a national program next year, if the \$370 million is approved, we will make every effort, through our process and I assume through SCS, to make farmers and the public aware of the at-

tributes of this program. And we would expect a response similar to what we had in the pilot program this last year.

We will make every effort to make certain that everyone is aware of the program.

Senator KOHL. I appreciate that very much. Thank you very much, Mr. Chairman.

#### CONSERVATION RESERVE PROGRAM

Senator BUMPERS. Thank you, Senator Kohl.

Back to the Conservation Reserve Program. Here is the GAO report that went to my counterpart over on the House, Congressman Dick Durbin.

"Dear Mr. Chairman: The Conservation Reserve Program authorized by the Food Safety Act of 1985 is costly." I am not going to read all of that.

The total cost, \$19.2 billion between 1987 and 2003, to temporarily remove 36.5 million acres of cropland from production. We previously reported that, although CRP was achieving substantial reductions in soil erosion, it could be less costly and more effective. We also found that in managing the program, the USDA was focusing primarily on meeting and mandating acreage enrollment requirements, and only secondarily on fulfilling the Conservation Reserve Program's environmental objectives.

Do you think that is a fair—is that a fair statement, Mr. Bridge?

Mr. BRIDGE. I think I would take issue with that a bit.

There are a couple of things that came into play here. One was the fact that there were significant offsettings, in terms of commodity payments, associated with those lands. Early in the program, we made some decisions that we would take only highly erodible land, with cropping history. About 3 years into the program, we stepped back and fine-tuned it. We began to deal with the water quality issues, wellhead protection areas, areas adjacent to streams, areas that the State water quality agencies had identified as having high levels of nonpoint source pollution abatement problems, and areas with high nitrogen application.

I think, given the basis of the law itself, we have been as environmentally responsible as we could be.

Senator BUMPERS. Are you getting any static from the environmentalists about the way you are operating this program?

Mr. BRIDGE. I think the environmental groups have been very supportive.

Senator BUMPERS. Conceptually, I know they are. I am talking about the administration of the program.

Mr. BRIDGE. We have not received a lot of criticism on it and I do not think ASCS has either.

I think we can all sit here and wonder, what if? What would we have achieved, had we made the same kinds of investment in the lands that we are using to produce, as opposed to land retirement schemes or systems.

Those are tough issues in terms of the tradeoffs. I sometimes feel that, had we really made that kind of a capital investment in permanent conservation practices on the land that we are using every day for production, we might have achieved more. But a lot of that

is now occurring under conservation compliance, through the sodbuster arrangements.

Senator BUMPERS. That brings me to my next question, Mr. Bridge.

#### SODBUSTER AND SWAMPBUSTER

Let us talk about the sodbuster and swampbuster provisions on the books now.

If I owned land that has been classified as fragile, or highly erodible, and I have never row-cropped that land; I have just, we will say, grazed it. Right now I am prohibited from doing anything with that land, completely aside from the Conservation Reserve Program, I am prohibited from doing anything with that land, if I want to participate in agricultural programs. Is that not correct?

Mr. BRIDGE. Not from a conservation compliance standpoint.

Senator BUMPERS. That is what I am talking about. I want to make sure we are talking about the same thing on this, because this is important.

Mr. BRIDGE. If you did not have a cropping history on that particular piece of land from 1980 to 1985, you can bring that land into production, but you need to have installed on the land at the time you make that first planting, the full conservation system needed to meet the compliance requirements.

Senator BUMPERS. Even though that land has been classified as fragile?

Mr. BRIDGE. That is right.

Senator BUMPERS. If I submit a plan that you approve, I can still row-crop it?

Mr. BRIDGE. That is exactly right. But you do have to have the plan installed on the land, at the time you produce on it.

Senator BUMPERS. All right. Now, if I can convince you that this land ought to be put in the Conservation Reserve Program, then you are going to pay me \$681 an acre over the next 10 years for it, is that correct?

Mr. BRIDGE. It also has to have a cropping history in order to be eligible for the Conservation Reserve Program.

Senator BUMPERS. Well, that is true. That is the distinction that I want to be sure we understand. This is land that has been row-cropped before. And we are saying to you, this land is highly erodible; we would like to take it out of production, and we will give you x amount of dollars to take it out. Right?

Mr. BRIDGE. That is right.

Senator BUMPERS. Whereas, the person who has never row-cropped the same kind of land is simple, he has to submit a plan if he wants to row-crop it. But if he is not in the mood to row-crop it—he may be an environmentalist, a conservationist—if he is not in the mood to do that, he gets nothing? Unless he can talk you into putting it in the Conservation Reserve? No; you would not put that land in Conservation Reserve, would you?

Mr. BRIDGE. No; you see, it does penalize, to some extent.

Senator BUMPERS. It seems to me like this guy is kind of taking a hit, and that is the reason I am asking.

Mr. BRIDGE. Yes; there are some concerns here, because it does penalize those that have been, historically, good conservation farm-



ers. Because their erosion rates were low enough so they could not qualify for the Conservation Reserve Program on some of those lands.

#### CONSERVATION RESERVE PROGRAM

Senator BUMPERS. The thing, I guess, that worries me more than anything else: In this GAO report, they are assuming that we are going to run this plan right on up to 2003; is that what the legislation calls for? The Conservation Reserve Program? This says, \$19.2 billion between 1987 and the year 2003.

Mr. BRIDGE. Yes; those contracts would have been signed up 10 years earlier, so—

Mr. WEBER. There are some 15-year contracts involved as well.

Senator BUMPERS. I take it, it is your present intention to continue asking for money for this program every year, continuing the program?

Mr. WEBER. Yes; to achieve the goal of 40 million acres by 1995 and to make payments on existing contracts.

Senator BUMPERS. A total of 40 million over the period, not at any one time?

Mr. WEBER. No; we have 36.5 million now, so there would be another 2.5 million acres to achieve by the 1995 crop year.

#### WETLANDS RESERVE PROGRAM

Senator BUMPERS. Are you counting Wetlands Reserve in that?

Mr. WEBER. No; 1 million acres of the total enrollment goal are set aside for the Wetlands Reserve, so there would be 39 million under the CRP.

Senator BUMPERS. How much are you asking for Wetlands Reserve, for 1994?

Mr. WEBER. We are asking for \$370 million, and hoping to enroll 450,000 acres.

Senator BUMPERS. 450,000 acres?

Mr. WEBER. Right.

Senator BUMPERS. Are you planning to continue a pilot program in about 10 or 12 States, or are you going to go nationwide?

Mr. WEBER. We would go nationwide.

Senator BUMPERS. I can tell you, that is the only way you are going to get the money. [Laughter.]

#### EXPORT ENHANCEMENT PROGRAM

What percentage of our exports, Mr. O'Mara, do you consider to be a result of EEP? Do you have a statistic on that?

Mr. O'MARA. I do not have one, offhand; perhaps Mr. Goldthwait does.

Senator BUMPERS. Mr. Goldthwait.

Mr. GOLDTHWAIT. I cannot give you an overall statistic. But, for example, in fiscal year 1992 we exported close to 20 million tons of wheat with the assistance of the EEP, and that was roughly 60 percent—maybe a little more than 60 percent—of our wheat exports. For other commodities—

Senator BUMPERS. How much was that in dollars, Mr. Goldthwait?



Mr. GOLDTHWAIT. In terms of dollars?

Senator BUMPERS. Yes; 20 million tons.

Mr. GOLDTHWAIT. I cannot give you a dollar figure, right off, given the fluctuation of prices through the marketing year. But for some other commodities, for example, barley and barley malt, the EEP supports nearly all of our export of those commodities. For some other commodities, it is much smaller. But it is quite significant, over all.

Senator BUMPERS. Mr. Goldthwait, it would be helpful to me, and I think it would be to the committee, if we had a list of both the commodity, the amount of the commodities, and the dollar value that was exported, that received some sort of an export enhancement subsidy.

Mr. GOLDTHWAIT. The total sales value for EEP commodities in fiscal year 1992 was around \$3.6 billion. And if you add the similar programs, the SOAP, COAP and DEIP Programs, you add roughly an additional \$300 million to that.

Senator BUMPERS. So, you are talking about, roughly, \$4 billion?

Mr. GOLDTHWAIT. So, just about 10 percent of the sales value of agricultural exports is supported by one or another of the export subsidy programs.

Senator BUMPERS. And what did that cost the taxpayers, under the EEP Program?

Mr. GOLDTHWAIT. The total expenditure in bonuses in fiscal year 1992 was, roughly, a little less than \$1 billion in total.

Senator BUMPERS. So, the subsidies represented, roughly, 25 percent of the total sales price?

Mr. GOLDTHWAIT. A little less than that.

Senator BUMPERS. Do you consider that pretty heavy? Or light? Or where it ought to be?

Mr. GOLDTHWAIT. I think if you look the subsidies that are being granted by our competition, chiefly the European Community, you will find that, on a per-tonnage basis, they run roughly three times ours. I think, given the competition that we are facing in world markets, this is reasonable. Now, as market conditions change, our bonus levels for particular sales go up and down. We saw bonus levels, for example, for wheat last year, in some cases, of nearly \$40 a ton; and in a few cases, a little over that. We also saw bonus levels of less than \$20 a ton. It varies a great deal from market to market, depending largely on what the competition is that we face from other subsidizers in that market.

Senator BUMPERS. How much rice did you export under the EEP Program?

Mr. GOLDTHWAIT. Rice exports in fiscal year 1992 totaled roughly \$130 million in value.

Senator BUMPERS. Only \$130 million, out of \$4 billion?

Mr. GOLDTHWAIT. That is correct. The reason for that is because, in point of fact, the European Community—which we chiefly target through the EEP—does not subsidize its rice exports in most of the markets that we are active in selling to. We face their subsidized competition in a handful of markets, largely in the Middle East.

## MARKET PROMOTION PROGRAM

Senator BUMPERS. Mr. Schroeter, do you administer the MPP Program?

Mr. SCHROETER. Yes, we do, sir.

Senator BUMPERS. Could you furnish this committee, and you maybe already have it, but I would like to see a list of the companies who participated in this last year?

Mr. SCHROETER. Absolutely.

Senator BUMPERS. You could supply that to us, for 1992?

Mr. SCHROETER. We can get that to you right away, sir.

Senator BUMPERS. Please. That will be very helpful.

[The information follows:]

STATE/COUNTRY      BRANDED COMPANIES

1992  
BUDGETED

OILSEEDS AND PRODUCTS

NATIONAL SUNFLOWER ASSOCIATION

U.S. COMPANIES

None

\$0.00

SUBTOTAL

\$0.00

U.S. SUBSIDIARIES

None

\$0.00

SUBTOTAL

\$0.00

FOREIGN BRANDS

JAPAN

Honen

\$115,000.00

SUBTOTAL

\$115,000.00

TOTAL BRANDED

\$115,000.00

NATIONAL PEANUT COUNCIL

1992  
BUDGETED

STATE/COUNTRY      BRANDED COMPANIES

U.S. COMPANIES

NJ  
Saudi Arabia  
GCC  
Korea

CPC  
Borden  
Planters  
Hunt-Wesson

\$200,000.00  
\$35,000.00  
\$95,000.00  
\$50,000.00

SUBTOTAL

\$380,000.00

U.S. SUBSIDIARIES

France  
Netherlands  
Germany  
Spain

Duyvis (Sara Lee)  
Duyvis (Sara Lee)  
Budes (Eagle)  
Budes (Eagle)

\$300,000.00  
\$300,000.00  
\$50,000.00  
\$75,000.00

SUBTOTAL

\$725,000.00

FOREIGN BRANDS

Denmark  
France  
France  
France  
France  
Germany  
Germany  
Gcc  
Hong Kong  
Japan  
Japan  
Netherlands  
Norway

Kim's  
Kp  
Menguy  
Bahlsen France  
Benoit  
Felix - Gourmet and Pittjes  
Bahlsen  
Bestfood  
Britannia Brands  
Fujiya  
Toyo Nut  
Orlando  
Maarud

\$50,000.00  
\$25,000.00  
\$75,000.00  
\$100,000.00  
\$15,000.00  
\$250,000.00  
\$200,000.00  
\$50,000.00  
\$25,000.00  
\$50,000.00  
\$100,000.00  
\$25,000.00  
\$35,000.00



## STATE/COUNTRY

## BRANDED COMPANIES

1992  
BUDGETED

## NATIONAL PEANUT COUNCIL (CONT.)

Saudi Arabia	Basamh-Roddenbery	\$50,000.00
Spain	Importaco	\$50,000.00
Sweden	Estrella	\$75,000.00
United Kingdom	Smiths (Pepsico)	\$200,000.00
United Kingdom	Sun - Pat (Nestle)	\$275,000.00
United Kingdom	KP	\$250,000.00
	SUBTOTAL	\$1,900,000.00
	TOTAL BRANDED	\$3,005,000.00

## AGEXPORT SERVICES

## EASTERN U.S. AGRICULTURAL FOOD AND EXPORT COUNCIL

## U.S. COMPANIES

CT	Motts	\$55,000.00
CT	Designs by David Glass	\$10,000.00
MA	New England Natural Bakers	\$11,500.00
MA	J.P. Sullivan	\$50,000.00
NH	Biosan	\$25,000.00
NJ	Burns and Ricker	\$52,000.00
NJ	Alpine Lace	\$25,000.00
NJ	Campbell Soup	\$52,000.00
NJ	CPC/Best Foods	\$42,000.00
NJ	RW Frooties	\$51,500.00
NJ	Haagen-Dazs	\$52,000.00
NJ	Internat'l American Supermarkets	\$52,000.00
NJ	Pet, Inc.	\$25,000.00

STATE/COUNTRY	BRANDED COMPANIES	1992	
			BUDGETED
NJ	Reese Finer Foods	\$25,000.00	
NY	Adirondack Maple Company	\$14,000.00	
NY	Brooklyn Brewery	\$18,000.00	
NY	Export Trade of America	\$25,000.00	
NY	Five Star Apples	\$20,000.00	
NY	Global Export Marketing	\$10,000.00	
NY	Ontario International	\$50,000.00	
NY	Royal Kedem Wines	\$26,000.00	
NY	Ralston Purina	\$32,500.00	
NY	United Apple Sales	\$55,000.00	
NY	The Wine Group	\$25,000.00	
NY	Rich Products	\$32,500.00	
PA	Bongrain Cheese	\$25,000.00	
PA	Capital Pet Foods	\$28,000.00	
PA	International Market Brands	\$25,000.00	
PA	JDM Commodities	\$27,000.00	
PA	Keystone Food Products	\$20,000.00	
VT	Food 2000	\$4,843.00	
VT	Maple Grove Farms	\$7,500.00	
VT	Miguels	\$2,550.00	
	SUBTOTAL	\$975,893.00	
	U.S. SUBSIDIARIES		
	None	\$0.00	
	SUBTOTAL	\$0.00	

STATE/COUNTRY

BRANDED COMPANIES

1992

BUDGETED

FOREIGN BRANDS

None

\$0.00

SUBTOTAL

\$0.00

TOTAL BRANDED

\$975,893.00

## WESTERN U.S. AGRICULTURAL TRADE ASSOCIATION

## U.S. COMPANIES

WA	American Wine Trade	\$85,000.00
WA	Arbor Crest	\$7,500.00
OR	Aunt Patsy's	\$2,000.00
CA	Basic American Foods	\$79,000.00
CA	Basic Vegetable Products	\$20,000.00
CA	Bay Beverage	\$79,000.00
AZ	Black Mountain Brewing Co.	\$5,000.00
NM	Blue Sky Natural	\$22,000.00
CA	Boboli	\$58,000.00
CA	Bruce Foods	\$79,000.00
CA	Campbells Soup Company	\$79,000.00
CA	Casa De Fruta	\$19,000.00
WA	Cascadian Farm	\$99,000.00
OR	Chateau Benoit	\$5,000.00
CA	Chiquita Brand	\$30,000.00
WA	Chukar Cherry	\$17,000.00
WA	Circle Sea Seafoods	\$27,250.00
CO	Colorado Cellars	\$13,000.00
CO	Columbine Specialty	\$75,000.00
UT	Cookiecree Bakeries	\$68,000.00
AZ	Country Estate Pecans	\$48,000.00
WA	Pacific Foods	\$11,000.00

STATE/COUNTRY	BRANDED COMPANIES	1992
		BUDGETED
AZ	Deprez Enterprises	\$11,000.00
NM	Domaine Cheurlin	\$40,000.00
CA	Dreyers Grand Ice Cream	\$99,000.00
CO	Duffy Co	\$55,000.00
CA	Earlrise Trading Co.	\$20,000.00
CA	Fleming Foods	\$69,000.00
CA	Fresh Western Marketing	\$79,000.00
CA	G.F. Export (Granny Goose)	\$19,000.00
CA	Garden of Eatin'	\$30,000.00
CA	Genuardi Farms	\$99,000.00
ID	Gering & Son	\$20,000.00
CA	Golden Bear Beverage Co.	\$10,000.00
CO	Grt Wstn Tortilla	\$53,000.00
CA	Hansa Pacific	\$99,000.00
CA	Hansen Beverage	\$99,000.00
HI	Hawaiian Sun	\$89,000.00
WA	Hogue	\$11,500.00
WA	Hoodport Winery	\$5,000.00
OR	Hoody	\$25,000.00
OR	Hoyt (Jay), Inc.	\$10,000.00
WA	Int'l Mkt Brands	\$26,000.00
CA	Kal Kan	\$99,000.00
CA	Kashi	\$75,000.00
AZ	La Corona Foods	\$75,000.00
CA	Lawrence (B.M.) & Co.	\$68,000.00
WA	Liberty Orchards	\$55,000.00
CA	Lindsay Int'l	\$23,000.00
ID	Litehouse, Inc.	\$42,000.00
HI	Mac Farms of Hawaii	\$79,000.00
WA	Maury Island	\$7,000.00
CA	Mayfair	\$63,000.00
MT	Montana Naturals	\$77,000.00
WA	Nalley's	\$31,000.00
CA	Nissin Foods	\$79,000.00



## WUSATA (CONT.)

STATE/COUNTRY	BRANDED COMPANIES	1992 BUDGETED
OR	Norpac	\$66,000.00
OR	Oregon Cherry Growers	\$4,000.00
CA	Otis McAllister	\$79,000.00
WA	Pacific Sales	\$31,000.00
CA	Pepperhouse Int'l	\$20,000.00
NM	Pet, Inc.	\$99,000.00
WA	Phoenix Marketing	\$79,000.00
OR	Poppers Supply	\$27,000.00
CO	Ralston Purina	\$99,000.00
ID	Rangen, Inc.	\$18,000.00
WA	Roman Meal	\$99,000.00
CA	Shoei Foods	\$50,000.00
CA	Sierra Hills Packing	\$8,875.00
WA	Staton Hills	\$18,000.00
ID	Ste. Chapelle	\$6,000.00
OR	Steinfeld's	\$24,000.00
WA	Slimson Lane	\$56,000.00
MT	Stonehouse Food Corp	\$30,000.00
WA	Sunridge Foods, Inc.	\$43,000.00
ID	Symms Fruit Ranch	\$12,000.00
WA	Tagaris Winery	\$19,000.00
CA	Trader Vic's	\$37,000.00
CA	Tradit'l Medicinals	\$20,000.00
WA	Tree Top	\$99,000.00
OR	Valley View Winery	\$21,000.00
OR	Vin Northwest	\$5,000.00
WA	Welch's	\$79,000.00
ID	Weston Winery	\$2,500.00
CO	White Wave	\$3,000.00
CA	Wild Rice Exchange	\$20,000.00
CA	Yasutomo & Co	\$10,000.00
	SUBTOTAL	\$3,853,625.00

## STATE/COUNTRY

1992

## BRANDED COMPANIES

## BUDGETED

## U.S. SUBSIDIARIES

None

\$0.00

## SUBTOTAL

\$0.00

## FOREIGN BRANDS

None

\$0.00

## SUBTOTAL

\$0.00

## TOTAL BRANDED

\$3,853,625.00

## MID-AMERICA INTERNATIONAL AGRI-TRADE COUNCIL

## U.S. COMPANIES

IL

Bunge Foods

\$50,000.00

IL

Keebler Co

\$50,000.00

IL

La Preferida

\$50,000.00

IL

Little Lady Foods

\$50,000.00

IL

Quaker Oats

\$90,000.00

IL

Reimann Food

\$5,000.00

IL

Rubschlagier Baking

\$7,000.00

IL

Sahagian &amp; Assoc

\$7,000.00

IL

Sokol &amp; Co

\$50,000.00

IL

Suter Co

\$50,000.00

IL

TKI

\$50,000.00

IL

Upper Crest Int'l

\$50,000.00

IL

Vienna Sausage

\$80,000.00

IN

Ramsey Popcorn

\$30,000.00

IN

Weaver Popcorn

\$70,000.00

STATE/COUNTRY	BRANDED COMPANIES	1992 BUDGETED	
IA	AMPC		\$41,950.00
IA	American Popcorn		\$90,000.00
IA	Well's Dairy		\$20,000.00
KS	Hill's Pet		\$150,000.00
KS	Popcorn Exchange		\$50,000.00
MI	Gerber		\$90,000.00
MI	Honee Bear		\$45,000.00
MI	Purity Foods		\$50,000.00
MI	Specialty Grain		\$9,152.00
MN	Anaconda		\$45,000.00
MN	Austrian Oblaten		\$15,000.00
MN	Bergin Nut Co		\$15,000.00
MN	Florhaug & Assoc		\$61,000.00
MN	General Mills		\$90,000.00
MN	Golden Valley MW		\$150,000.00
MN	Hormel International		\$50,000.00
MN	Little Bear		\$50,000.00
MN	Marigold Foods		\$50,000.00
MN	Pillsbury		\$150,000.00
MN	Stars		\$50,000.00
MO	Custom Industries		\$20,000.00
MO	Wetterau		\$40,000.00
MO	IDF		\$8,000.00
MO	Lochhead Vanilla		\$6,000.00
MO	Pet, Inc.		\$150,000.00
MO	Petrofsky's		\$150,000.00
MO	Protein Tech		\$70,000.00
MO	Ralston		\$70,000.00
NE	Casera Foods		\$10,000.00
NE	Conagra FF		\$150,000.00
NE	Morrison Farms		\$45,000.00
NE	NE Dairies		\$70,000.00
NE	US Mills		\$11,000.00
ND	Red River Commodis		\$26,000.00
ND	Sigco Sun		\$13,000.00

MIATCO (CONT.)

STATE/COUNTRY	BRANDED COMPANIES	1992 BUDGETED
ND	Sonne Labs	\$50,000.00
OH	Borden	\$145,250.00
OH	Campbell Soup	\$150,000.00
OH	Export Trade	\$45,000.00
OH	Hunt-Wesson	\$90,000.00
OH	Iams Co	\$80,000.00
OH	IAS	\$150,000.00
OH	J.M. Smucker	\$50,000.00
OH	Vogel Popcorn	\$25,000.00
SD	Capital Petfoods	\$90,000.00
WI	American Ag - Tec	\$70,000.00
WI	Beatreme	\$70,000.00
WI	Chief Industries	\$16,000.00
WI	Cumberland Pckg	\$48,375.00
WI	IMB	\$45,000.00
WI	Huber Brewing	\$50,000.00
WI	Welcome Dairy	\$11,000.00
	SUBTOTAL	\$3,985,727.00
	U.S. SUBSIDIARIES	
	None	\$0.00
	SUBTOTAL	\$0.00
	FOREIGN BRANDS	
	None	\$0.00
	SUBTOTAL	\$0.00
	TOTAL BRANDED	\$3,985,727.00



## STATE/COUNTRY

## BRANDED COMPANIES

1992

BUDGETED

## KENTUCKY DISTILLERS ASSOCIATION

## U.S. COMPANIES

NY	Age International	\$195,000.00
NY	Austin Nichols and Company	\$300,000.00
IL	Jim Bean Brands	\$837,000.00
KY	Brown - Forman Corporation	\$1,165,000.00
KY	Glenmore Distilleries	\$0.00
KY	Heaven Hill Distilleries	\$220,000.00
MI	Hiram Walker & Sons	\$145,000.00
MN	International Packaging Co.	\$133,000.00
LA	Sazerac Company	\$25,000.00
TX	Schenley International	\$390,000.00
NY	Joseph E. Seagram & Sons	\$217,000.00
IL	Barton Brands	\$13,000.00

SUBTOTAL

\$3,640,000.00

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## U.S. SUBSIDIARIES

None

\$0.00

SUBTOTAL

\$0.00

## FOREIGN BRANDS

None

\$0.00

SUBTOTAL

\$0.00

TOTAL BRANDED

\$3,640,000.00

1992  
BUDGETED

STATE/COUNTRY

BRANDED COMPANIES

## SOUTHERN U.S. TRADE ASSOCIATION

## U.S. COMPANIES

LA	Alimentco	\$35,000.00
GA	Am Tanning & Leather	\$45,000.00
MD	Baltimore Pizza	\$21,500.00
VA	Basco	\$15,000.00
GA	Bascom	\$19,000.00
TX	Bellinger	\$130,000.00
LA	Bernard Foods	\$8,000.00
TX	Big Tex Grain	\$4,000.00
TX	Blue Bell Creameries	\$55,000.00
TX	Brice Foods	\$100,000.00
LA	Brown's Velvet	\$55,000.00
LA	Bruce Foods	\$193,000.00
TX	Campbell Soup	\$130,000.00
LA	Cargill	\$50,000.00
NC	Carolina Classics	\$5,000.00
PR	Casera Foods	\$22,500.00
TX	Century Harvest	\$12,000.00
VA	Chastain	\$5,000.00
TN	Coffee Connexion	\$65,000.00
LA	Crown Products	\$118,000.00
LA	Crystal	\$33,750.00
MS	Delta Pride	\$95,000.00
PR	Escogido	\$50,000.00
LA	Fairco	\$23,000.00
FL	Florida Treatt	\$3,000.00
FL	Florida—European	\$27,000.00
PR	Fruits International	\$80,000.00
NC	Gerber	\$95,000.00
MD	Global Ent.	\$25,000.00
PR	Golden Fruit Co., Inc.	\$30,000.00

SUSTA (CONT.)		1992 BUDGETED	
STATE/COUNTRY	BRANDED COMPANIES		
FL	GPI		\$5,000.00
TX	Great San Saba		\$23,000.00
MD	G. Heileman		\$120,000.00
GA	Helen's Tropical		\$7,000.00
NC	Home Ind		\$8,000.00
PR	H.D.C.		\$97,500.00
MD	H.R. Nicholson		\$15,000.00
FL	Intermares Group Inc.		\$55,000.00
SC	International Ind.		\$15,600.00
MD	Int'l Bridge		\$15,000.00
FL	Jacque Bobbe		\$40,000.00
MD	John T. Handy		\$20,000.00
FL	J.R. Brooks		\$55,000.00
VA	Khoury Assoc. Int'l		\$65,000.00
LA	La Premium Seafoods		\$65,000.00
NC	Lance		\$55,000.00
MD	Lee's Homemade Ice Cream		\$10,000.00
TX	L. A. Teste Service		\$17,000.00
LA	Magic Seasoning		\$29,750.00
LA	McIlhenny Co.		\$150,000.00
MD	MD Gourmet Foods		\$7,000.00
MD	Mecca		\$55,000.00
NC	Miller Beer		\$70,000.00
PR	Nipuspan		\$85,000.00
GA	Nut Tree Pecan		\$20,000.00
TX	Pace Foods		\$75,000.00
TX	Pacan Valley Nut Co.		\$7,000.00
TX	Pet Inc.		\$70,000.00
LA	Piazza		\$5,000.00
MD	Quandt Enterprises		\$11,000.00
TX	Richland Beverage		\$40,000.00
NC	Seneca		\$55,000.00
NC	Simply Delicious		\$40,000.00
TX	Spanish American Trading		\$12,000.00

SUSTA (CONT.)		CHOCOLATE MANUFACTURES	
STATE/COUNTRY	BRANDED COMPANIES	1992 BUDGETED	
AR	TCBY	\$75,000.00	
KY	Torbitt & Castleman	\$39,000.00	
TX	Tri City Sales	\$8,000.00	
TX	WEBCO	\$10,000.00	
LA	WM B. Reilly	\$50,000.00	
PR	WM. Mattei	\$9,000.00	
SC	Young Pecan	\$30,000.00	
	SUBTOTAL	\$3,190,600.00	
	U.S. SUBSIDIARIES		
	None	\$0.00	
	SUBTOTAL	\$0.00	
	FOREIGN BRANDS		
	None	\$0.00	
	SUBTOTAL	\$0.00	
	TOTAL BRANDED	\$3,190,600.00	
	U.S. COMPANIES		
	Hershey International	\$423,577.00	
	M&M/Mars	\$785,115.00	
	Ben Myerson Candy Company	\$37,500.00	
	Herman Goelitz Candy Company	\$55,500.00	
	Brown Haley/Almond Roca International	\$150,000.00	
	Nestle USA	\$202,194.00	
	Minkowitz Services	\$50,000.00	



STATE/COUNTRY	BRANDED COMPANIES	1992	
		BUDGETED	
HORTICULTURAL AND TROPICAL PRODUCTS	Tootsie Roll Industries	\$148,419.00	
	GVGP Corp of California	\$8,000.00	
	Morley Candy Makers	\$15,000.00	
	R.M. Palmer	\$43,500.00	
	Warner-Lambert Company	\$33,500.00	
	Sunmark International	\$101,542.00	
	Fine Foods Northwest	\$2,200.00	
	The Sweet Shop USA	\$10,800.00	
	SUBTOTAL	\$2,066,847.00	
	U.S. SUBSIDIARIES		
	None	\$0.00	
	FOREIGN BRANDS		
	None	\$0.00	
	SUBTOTAL	\$0.00	
	TOTAL BRANDED	\$2,066,847.00	
	U.S. COMPANIES		
	Pillsbury	\$1,878,000.00	
	Monarch	\$0.00	
	Norpac	\$131,000.00	
	ID		
	WI		
	OR		
PROCESSED CORN (EIP)			
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STATE/COUNTRY	BRANDED COMPANIES	1992	
		BUDGETED	
WA/OR/D/IL	Del Monte	\$109,000.00	
OR	Agripac	\$296,500.00	
CA	Fleming	\$25,000.00	
WI	Int'l American Supermkt. Corp.	\$25,000.00	
NY	Interfrost	\$285,000.00	
CA	S&W Foods	\$40,000.00	
WA/OR/D	American Fine Foods	\$0.00	
WI	Friday Canning Corp.	\$0.00	
	SUBTOTAL	\$2,789,500.00	
	U.S. SUBSIDIARIES		
	None	\$0.00	
	SUBTOTAL	\$0.00	182
	FOREIGN BRANDS		
	None	\$0.00	
	SUBTOTAL	\$0.00	
	TOTAL BRANDED	\$2,789,500.00	
CAUFORNIA WALNUT COMMISSION			
	U.S. COMPANIES		
CA	Diamond	\$115,000.00	
	SUBTOTAL	\$115,000.00	

## STATE/COUNTRY

## BRANDED COMPANIES

1992

## BUDGETED

## U.S. SUBSIDIARIES

None

\$0.00

## SUBTOTAL

\$0.00

## FOREIGN BRANDS

Spain  
Spain  
SpainBorges  
Importaco/Cohesol  
Riera

\$855,000.00

\$0.00

\$0.00

## SUBTOTAL

\$855,000.00

## TOTAL BRANDED

\$970,000.00

## PROCESSED TOMATO (EIP)

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## U.S. COMPANIES

CA  
CA  
CA  
WA  
CADel Monte  
Escalon  
Hunt—Wesson  
Northwest Packing  
Tri—Valley Growers

\$170,000.00

\$5,500.00

\$130,000.00

\$10,125.00

\$290,375.00

## SUBTOTAL

\$606,000.00

## U.S. SUBSIDIARIES

None

\$0.00

## SUBTOTAL

\$0.00

STATE/COUNTRY	BRANDED COMPANIES	1992 BUDGETED	
CRANBERRY (EIP)	FOREIGN BRANDS		
	None		\$0.00
		SUBTOTAL	\$0.00
		TOTAL BRANDED	\$606,000.00
	U.S. COMPANIES		
	Ocean Spray		\$784,000.00
		SUBTOTAL	\$784,000.00
	U.S. SUBSIDIARIES		
	None		\$0.00
	FOREIGN BRANDS		
	None		\$0.00
		SUBTOTAL	\$0.00
	FOREIGN BRANDS		
	None		\$0.00
		SUBTOTAL	\$0.00
	FOREIGN BRANDS		
	None		\$0.00
		SUBTOTAL	\$0.00
		TOTAL BRANDED	\$784,000.00



GRAPE (EIP)

STATE/COUNTRY      BRANDED COMPANIES

1992  
BUDGETED

U.S. COMPANIES

WA/PA/AR

Weicht's

\$1,205,400.00

SUBTOTAL

\$1,205,400.00

U.S. SUBSIDIARIES

None

\$0.00

SUBTOTAL

\$0.00

FOREIGN BRANDS

None

\$0.00

SUBTOTAL

\$0.00

TOTAL BRANDED

\$1,205,400.00

185

FLORIDA DEPARTMENT OF CITRUS

U.S. COMPANIES

FL  
FL  
FL  
FL  
FL  
FL  
FL  
FL  
FL  
FL

Caulkins  
Inter-Florida  
Citrus World  
Sunpure  
Tropicana  
Winter Garden  
Silver Spring  
Albersons

\$18,066.00  
\$34,009.00  
\$1,292.00  
\$27,445.00  
\$155,132.00  
\$84,174.00  
\$2,842.00  
\$5,467.00

BRANDED COMPANIES

STATE/COUNTRY

1992  
BUDGETED

FLORIDA DEPT. OF CITRUS (CONT.)

FL	Golden Gem	\$51,391.00
FL	Indian River Foods	\$7,293.00
FL	Orange-Co	\$545.00
FL	Juice Bowl	\$77,668.00
FL	DLF International	\$27,612.00
FL	Duda	\$17,687.00
FL	IMG	\$55,841.00
FL	Ocean Spray	\$18,431.00
FL	Seald-Sweet	\$57,309.00
FL	Citrus Country	\$11,568.00
FL	DNE	\$130,502.00
FL	Dole	\$11,958.00
FL	Fresh Citrus Sales	\$11,693.00
FL	Plenty	\$6,541.00
FL	Riverside	\$4,682.00
FL	Dearhardt	\$1,804.00
	SUBTOTAL	\$820,952.00

U.S. SUBSIDIARIES

None

	\$0.00
SUBTOTAL	\$0.00

FOREIGN BRANDS

None

	\$0.00
SUBTOTAL	\$0.00
TOTAL BRANDED	\$820,952.00

CITRUS (EIP)

STATE/COUNTRY      BRANDED COMPANIES

1992  
BUDGETED

U.S. COMPANIES

CA	DiMare	\$25,050.00
CA	LoBue	\$50,000.00
CA	Sequoia	\$90,000.00
CA	Horizon	\$95,000.00
CA	Sun World	\$160,000.00
CA	Dole	\$980,000.00
CA	Sunkist	\$7,799,950.00
	<b>SUBTOTAL</b>	<b>\$9,200,000.00</b>

U.S. SUBSIDIARIES

None	\$0.00
<b>SUBTOTAL</b>	<b>\$0.00</b>

FOREIGN BRANDS

None	\$0.00
<b>SUBTOTAL</b>	<b>\$0.00</b>
<b>TOTAL BRANDED</b>	<b>\$9,200,000.00</b>

STATE/COUNTRY	BRANDED COMPANIES	1992 BUDGETED
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CALIFORNIA PRUNE BOARD

U.S. COMPANIES

CA	Cal Prune	\$335,000.00
CA	Dole	\$362,000.00
CA	Mariani	\$407,000.00
CA	Sunsweet	\$3,300,000.00
CA	Valley View	\$306,000.00
	SUBTOTAL	\$4,710,000.00

U.S. SUBSIDIARIES

None	\$0.00
SUBTOTAL	\$0.00

FOREIGN BRANDS

None	\$0.00
SUBTOTAL	\$0.00
TOTAL BRANDED	\$4,710,000.00



## STATE/COUNTRY

## BRANDED COMPANIES

1992

## BUDGETED

## CALIFORNIA RAISIN ADVISORY BOARD

## U.S. COMPANIES

CA	Dole	\$808,250.00
CA	Sun Maid	\$2,628,350.00
CA	National	\$412,200.00
CA	Del Ray	\$65,000.00
CA	Enoch	\$42,250.00
CA	Leon	\$130,650.00
CA	Caruthers	\$13,000.00
CA	Victor	\$19,500.00
	SUBTOTAL	\$4,119,200.00

## U.S. SUBSIDIARIES

None

\$0.00

SUBTOTAL

\$0.00

## FOREIGN BRANDS

Denmark	Dagrofa	\$29,250.00
Denmark	FDB	\$29,250.00
Finland	Dagrofa	\$16,250.00
Finland	INEX	\$19,500.00
Finland	KESKO	\$3,250.00
Germany	Neuforn	\$52,000.00
Germany	Aldi	\$13,000.00
Norway	Unil	\$13,000.00
Sweden	DAGAB	\$13,000.00
Sweden	ICA	\$26,000.00
Sweden	INEX	\$26,000.00
Netherlands	Zannatoni	\$13,000.00

1992  
BUDGETED

STATE/COUNTRY      BRANDED COMPANIES

CALRAB (CONT.)

Netherlands	Glol	\$52,000.00
Spain	Borges	\$260,000.00
UK	Tesco	\$21,450.00
UK	ASDA	\$19,500.00
UK	Gateway	\$9,750.00
UK	Sainsbury	\$21,450.00
UK	Safeway	\$21,450.00
UK	Petty Wood	\$7,400.00
UK	Co-op	\$16,250.00
UK	Morrison	\$9,750.00
Taiwan	Fu Mei	\$166,250.00

SUBTOTAL

\$858,750.00

TOTAL BRANDED

\$4,977,950.00

BRANDY EXPORT ASSOCIATION

U.S. COMPANIES

Clear Creek Distillery	\$66,500.00
E & J Gallo	\$690,000.00
International Packaging Co	\$50,000.00
St. George Spirits	\$1,500.00

SUBTOTAL

\$808,000.00

U.S. SUBSIDIARIES

None	\$0.00
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SUBTOTAL

\$0.00

ALMOND (EIP)

STATE/COUNTRY	BRANDED COMPANIES	1992 BUDGETED
	FOREIGN BRANDS	
	None	\$0.00
		SUBTOTAL
		\$0.00
		TOTAL BRANDED
		\$808,000.00
	U.S. COMPANIES	
	Blue Diamond	\$4,462,763.00
	Hansa Pacific	\$380,000.00
	Hughson Nut	\$68,082.00
	Triad	\$29,433.00
	Dole	\$100,000.00
		SUBTOTAL
		\$5,040,278.00
	U.S. SUBSIDIARIES	
	None	\$0.00
		SUBTOTAL
		\$0.00
	FOREIGN BRANDS	
	None	\$0.00
		SUBTOTAL
		\$0.00
		TOTAL BRANDED
		\$5,040,278.00

NATIONAL HONEY BOARD

STATE/COUNTRY	BRANDED COMPANIES	1992 BUDGETED
	U.S. COMPANIES	
GA	Supplies & Mktg. Int'l Inc.	\$32,500.00
IA	Sioux Honey Association	\$34,375.00
	SUBTOTAL	\$66,875.00
	U.S. SUBSIDIARIES	
	None	\$0.00
	SUBTOTAL	\$0.00
	FOREIGN BRANDS	
Finland	Finnish Honey Producers	\$8,125.00
Sweden	CGA Standberg	\$5,000.00
	SUBTOTAL	\$13,125.00
	TOTAL BRANDED	\$80,000.00



## NATIONAL POTATO PROMOTION BOARD

## U.S. COMPANIES

ID/WA/OR	J.R. Simplot	\$200,000.00
ID/WA/OR	Norpac	\$15,000.00
ID	Basic American	\$90,000.00
ID/WA/OR	Lamb Wesson	\$95,000.00
ID	Magic Valley	\$22,500.00
ID/WA/OR	Pacific Sales	\$42,500.00
ID/WA/OR	Sky International	\$50,000.00
ID/WA/OR	Spada Enterprise	\$15,000.00
ID/WA/OR	Universal	\$60,500.00
ID/WA/OR	Viking/Golden VY	\$17,500.00
	<b>SUBTOTAL</b>	<b>\$608,000.00</b>

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## U.S. SUBSIDIARIES

None	\$0.00
<b>SUBTOTAL</b>	<b>\$0.00</b>

## FOREIGN BRANDS

None	\$0.00
<b>SUBTOTAL</b>	<b>\$0.00</b>
<b>TOTAL BRANDED</b>	<b>\$608,000.00</b>

## WINE INSTITUTE

1992  
BUDGETED

## BRANDED COMPANIES

## STATE/COUNTRY

## U.S. COMPANIES

CA	Ariel	\$30,000.00
CA	California Winery	\$75,145.00
CA	Concannon	\$20,000.00
CA	Domaine Chandon	\$30,000.00
CA	Firestone	\$3,000.00
CA	Freemark Abbey	\$6,250.00
CA	Geyser Peak	\$20,000.00
CA	Gitmarra	\$34,725.00
CA	Glen Ellen	\$283,000.00
CA	Grigich Hills	\$1,500.00
CA	Guenoc	\$22,000.00
CA	Heublein	\$731,505.00
CA	Laurel Glen	\$2,700.00
CA	Loehr, J.	\$9,625.00
CA	Martin Bros.	\$3,000.00
CA	Mirassou	\$72,710.00
CA	Parducci	\$12,500.00
CA	Seagrams	\$689,768.00
CA	Shaler	\$5,000.00
CA	Sutter Home	\$60,600.00
CA	Vintners Int'l	\$810,850.00
CA	Wine Group	\$80,000.00
CA	Wolner Estates	\$15,000.00
CA	Gallo	\$4,500,000.00
CA	Wine World (Beringer)	\$125,000.00
CA	St. Supery	\$20,000.00
CA	Schug	\$6,500.00
CA	Cuvalson	\$65,000.00
CA	Fopplano	\$45,000.00
CA	Franciscan	\$38,000.00
CA	Grand Cru	\$10,400.00

WINE INSTITUTE (CONT.)	STATE/COUNTRY	BRANDED COMPANIES	1992 BUDGETED
	CA	Guild	\$123,000.00
	CA	Rutherford Hill	\$27,600.00
	CA	Schramsberg	\$15,750.00
	CA	Hess Collection	\$600.00
	CA	Wente Bros.	\$160,000.00
	CA	San Antonio	\$4,000.00
	CA	Korbel	\$55,000.00
	CA	Chalone	\$6,000.00
	CA	Ferrari-Carano	\$8,000.00
	CA	Delicato	\$150,000.00
	CA	Weibel	\$95,000.00
	CA	Bargetto	\$1,500.00
	CA	Vinformatio (Mountain View)	\$8,000.00
	CA	Fetzer	\$90,000.00
	CA	Mondavi	\$320,000.00
	CA	Racke USA	\$67,000.00
	CA	Dry Creek	\$10,750.00
	CA	Guglielmo (Emilio)	\$75,000.00
	CA	Freixenet	\$35,000.00
	CA	De Loach	\$8,000.00
	CA	Alexander Valley	\$3,000.00
	CA	Bonny Doon	\$1,600.00
	CA	Cameros Creek	\$5,500.00
	CA	Chateau St. Jean	\$25,000.00
	CA	Kenwood	\$25,000.00
	CA	Far Niente	\$6,500.00
	CA	Iron Horse	\$6,500.00
	CA	Ravenswood	\$3,000.00
	CA	Cakebread Cellars	\$15,650.00
	CA	Hacienda	\$3,000.00
	CA	Matanzas Creek	\$2,500.00
	CA	Preston	\$1,750.00
	CA	Trefethen	\$25,500.00
	CA	Simi	\$11,750.00
	CA	Kendall-Jackson	\$11,800.00

WINE INSTITUTE (CONT.)		1992 BUDGETED	
STATE/COUNTRY	BRANDED COMPANIES		
CA	St. Francis	\$10,000.00	
CA	Gundlach-Bunschu	\$14,000.00	
CA	Seghesio	\$2,000.00	
CA	Golden State Vintners	\$200,000.00	
CA	BSRM (St. Zellerbach)	\$1,500.00	
CA	Sebastiani	\$350,000.00	
CA	Arciero	\$3,000.00	
CA	McDowell Valley	\$6,000.00	
CA	Quady	\$1,800.00	
CA	Saintsbury	\$8,000.00	
CA	Tribaut Devaury	\$3,000.00	
CA	Clos du Val	\$12,500.00	
CA	Renaissance	\$5,500.00	
CA	Swanson	\$28,000.00	
CA	Wheeler (William)	\$8,000.00	
CA	Calera	\$1,200.00	
CA	Scharfenberger	\$35,000.00	
CA	Culbertson	\$3,000.00	
CA	Frog's Leap	\$5,000.00	
CA	Lytton Springs	\$3,160.00	
CA	Phelps (Joseph)	\$4,500.00	
	SUBTOTAL	\$9,942,188.00	
	U.S. SUBSIDIARIES		
	None	\$0.00	
	SUBTOTAL	\$0.00	



STATE/COUNTRY	BRANDED COMPANIES	1992 BUDGETED
	FOREIGN BRANDS	
	None	\$0.00
	SUBTOTAL	\$0.00
	TOTAL BRANDED	\$9,942,188.00

# DAIRY, LIVESTOCK AND POULTRY

## U.S. MEAT EXPORT FEDERATION

U.S. COMPANIES		
ID	Agri-Beef	\$7,500.00
MI	Allen Associates	\$0.00
MO	Ambassador Meats	\$0.00
WI	American Foods	\$70,250.00
IL	Beatrice	\$65,500.00
NE	Beef America	\$2,000.00
TX	Bellinger Assn.	\$0.00
CA	Brinco	\$0.00
IL	Bruss	\$0.00
MN	Cady Management	\$0.00
IL	Carl Buddig	\$0.00
OH	Certified Angus BF	\$17,250.00
PA	Colonial	\$1,350.00
MN	Conagra	\$0.00
WI	Consolidated Beef	\$0.00
NE	Comland	\$0.00
TX	Dallas Crown	\$36,000.00
TX	Double 'B'	\$37,000.00
CA	DPM	\$0.00

## USMEF (CONT.)

STATE/COUNTRY	BRANDED COMPANIES	1992 BUDGETED
UT	E.A. Miller	\$20,000.00
MN	Ellison	\$0.00
KS	Excel	\$45,000.00
MO	Famland	\$19,850.00
NJ	Frontier	\$2,000.00
CO	Gerber	\$21,000.00
NC	Goodmark	\$116,000.00
TX	Granada	\$0.00
PA	Gurrentz	\$0.00
CA	Harris Ranch	\$30,000.00
OH	Hilshire Farms	\$25,000.00
MN	Hormel	\$0.00
KS	Hyplains	\$0.00
NH	Jac Pac	\$0.00
ID	J.S. Simplot	\$48,500.00
OH	John Morrell	\$44,750.00
W	Jones Dairy	\$8,500.00
WA	K & N Foods	\$0.00
W	Kraft (Gen. Foods)	\$0.00
CA	Manning Beef	\$0.00
CO	Maverick	\$0.00
IA	Midamar	\$0.00
CO	Monfort	\$31,000.00
CO	Mountain Meadows	\$0.00
IA	Oscar Mayer	\$0.00
W	Packerland	\$0.00
OH	Pierre Frozen Foods	\$30,000.00
W	Provinci	\$0.00
NE	Ranchland	\$0.00
NM	Rich Meat	\$0.00
FL	Rose Packing	\$15,250.00
TX	Sam Hausman Meats	\$0.00
CA	Shasta Foods	\$0.00
CA	Shenson	\$28,000.00

## STATE/COUNTRY

## BRANDED COMPANIES

1992

## BUDGETED

NE	Skylark	\$0.00
NY	Smith Packing	\$1,150.00
CA	Southfield	\$0.00
GA	Stake Specialists	\$0.00
WA	Superior Foods	\$0.00
IA	Tama	\$0.00
IN	Taurus	\$0.00
WA	Tillamook	\$0.00
VA	Valleydale	\$0.00
CA	Veal Connection	\$0.00
IL	Vienna Beef	\$0.00
NE	VMI	\$68,500.00
WA	Washington Beef	\$0.00
OK	Wilson Foods	\$29,150.00
CT	Windabrae	\$44,000.00
WY	Wyoming I/X	\$0.00
		\$0.00
	SUBTOTAL	\$864,500.00

199

## U.S. SUBSIDIARIES

None

\$0.00

SUBTOTAL

\$0.00

## FOREIGN BRANDS

None

\$0.00

SUBTOTAL

\$0.00

TOTAL BRANDED

\$864,500.00

## STATE/COUNTRY

## BRANDED COMPANIES

1992  
BUDGETED

## ALASKA SEAFOOD MARKETING INSTITUTE

## U.S. COMPANIES

None

\$0.00

SUBTOTAL

\$0.00

## U.S. SUBSIDIARIES

None

\$0.00

SUBTOTAL

\$0.00

## FOREIGN BRANDS

UK

John West

\$507,000.00

UK

Princess

\$117,000.00

UK

Co-op

\$61,900.00

UK

Sainsbury

\$48,200.00

Ireland

Beck-Smith

\$25,000.00

Netherlands

Gloe &amp; Co.

\$21,300.00

Netherlands

MCM Foods

\$38,700.00

SUBTOTAL

\$819,100.00

TOTAL BRANDED

\$819,100.00



## STATE/COUNTRY

## BRANDED COMPANIES

1992  
BUDGETED

## NATIONAL ASSOCIATION OF ANIMAL BREEDERS

## U.S. COMPANIES

TN  
AZ  
WI  
PA  
CA  
OH  
OH  
PA  
WI  
CAAmerican Senepol Limited, Inc.  
Semkin International  
American Breeders Service  
Federated Genetics  
Landmark Genetics  
NOBA  
Select Sires  
Sire Power  
Tri - State Breeders  
21st Century Genetics  
World Wide Sires Inc.\$2,500.00  
\$2,000.00  
\$30,000.00  
\$14,000.00  
\$21,000.00  
\$7,500.00  
\$15,000.00  
\$11,000.00  
\$7,500.00  
\$6,800.00  
\$52,700.00

SUBTOTAL

\$170,000.00

201

## U.S. SUBSIDIARIES

None

\$0.00

SUBTOTAL

\$0.00

## FOREIGN BRANDS

None

\$0.00

SUBTOTAL

\$0.00

TOTAL BRANDED

\$170,000.00

STATE/COUNTRY		1992 BUDGETED	
U.S. MINK EXPORT DEVELOPMENT COUNCIL			
BRANDED COMPANIES			
U.S. COMPANIES			
Moyle Mink			\$40,000.00
North American Fur			\$740,000.00
American Legend			\$1,200,000.00
SUBTOTAL			\$1,980,000.00
U.S. SUBSIDIARIES			
None			\$0.00
SUBTOTAL			\$0.00
FOREIGN BRANDS			
None			\$0.00
SUBTOTAL			\$0.00
TOTAL BRANDED			\$1,980,000.00
USA POULTRY AND EGG EXPORT COUNCIL			
U.S. COMPANY			
American Poultry International			\$7,500.00
Bil Mar Foods			\$60,000.00
Plantation Foods			\$206,536.00
Longmont Foods			\$127,312.00
B. Terfloth			\$89,624.00
Fast Food Merchandizers			\$82,500.00
Conagra			\$15,000.00

STATE/COUNTRY	BRANDED COMPANIES	1992 BUDGETED
	Rocco	\$355,964.00
	Tyson Foods	\$1,177,124.00
	Rockingham	\$212,016.00
	Foster Farms	\$165,000.00
	Hidden Villa	\$218,808.00
	Decoster Egg Farms	\$218,808.00
	Frontier Beef	\$37,500.00
	Empire Kosher	\$37,500.00
	Swift Eckrich	\$157,500.00
	Pierce Foods	\$30,000.00
	SUBTOTAL	\$3,198,692.00
	U.S. SUBSIDIARIES	
	McDonalds HK	\$218,808.00
	Burger King	\$157,500.00
	McDonalds SN	\$150,000.00
	SUBTOTAL	\$526,308.00
	FOREIGN BRANDS	
	None	\$0.00
	SUBTOTAL	\$0.00
	TOTAL BRANDED	\$3,725,000.00

## COTTON COUNCIL INTERNATIONAL

U.S. COMPANIES		
None		\$0.00
	SUBTOTAL	\$0.00
U.S. SUBSIDIARIES		
None		\$0.00
	SUBTOTAL	\$0.00
FOREIGN BRANDS		
Korea	Cotton Club	\$78,947.00
Korea	Sergio Valente	\$65,789.00
Korea	Absorba	\$65,789.00
Korea	Sasson	\$52,631.00
Korea	Bang Bang	\$52,631.00
Korea	Try	\$131,578.00
Korea	Edwin	\$39,473.00
Korea	Vicman	\$118,421.00
Korea	Arnold Palmer	\$65,789.00
Korea	Simple Life	\$65,789.00
Korea	BYC	\$131,578.00
Korea	Hunt	\$65,789.00
Korea	System	\$52,631.00
Korea	Dongil Corp	\$4,540.00
Korea	Chongbang Co	\$12,106.00
Korea	Taihan Textile Corp	\$7,497.00



COTTON COUNCIL INTERNATIONAL (CONT.)	STATE/COUNTRY	BRANDED COMPANIES	1992 BUDGETED	
	Korea	Dainong Corp	\$8,417.00	
	Korea	Choongnam Spinning Co	\$14,554.00	
	Korea	Ilshin Spinning	\$5,858.00	
	Korea	Pang-rim Coop	\$6,611.00	
	Korea	Tae Hwa Spinning Coop	\$1,988.00	
	Korea	Samil Spinning	\$2,015.00	
	Korea	Hang Ten	\$52,631.00	
	Korea	Fabrizio	\$26,315.00	
	Korea	Scofield	\$34,219.00	
	Taiwan	John Henry	\$20,833.00	
	Taiwan	Tonia Nicole	\$20,500.00	
	Taiwan	Bontex	\$62,500.00	
	Taiwan	Lee	\$141,999.00	
	Taiwan	IBS	\$58,333.00	
	Taiwan	Little YG	\$75,000.00	
	Taiwan	ING	\$41,667.00	
	Taiwan	CB	\$29,167.00	
	Taiwan	Proman	\$66,667.00	
	Taiwan	Jockey	\$112,500.00	
	Taiwan	Playboy	\$41,667.00	
	Taiwan	Yierfshuang	\$58,333.00	
	Taiwan	Martex	\$45,833.00	
	Taiwan	Papp	\$19,167.00	
	Taiwan	S.B. Polo	\$29,167.00	
	Taiwan	Unicom	\$83,333.00	
	Taiwan	FET	\$91,667.00	
	Taiwan	Manhattan	\$66,667.00	
	Taiwan	AS	\$257,208.00	
	Japan	Daruma & Ings	\$69,166.00	
	Japan	Daiwabo Hanes	\$194,166.00	
	Japan	Toyobo	\$307,136.00	
	Japan	Bobson	\$732,725.00	
	Japan	Familiar	\$177,500.00	

COTTON COUNCIL INTERNATIONAL (CONT.)			1992 BUDGETED
STATE/COUNTRY	BRANDED COMPANIES		
Japan	Wrangler		\$607,308.00
Japan	Crocodile		\$257,208.00
Japan	Munsingwear		\$826,708.00
Japan	Upxon Hanes		\$32,000.00
Japan	Com'fort Proposal		\$62,750.00
Japan	Roberta Di Camerion		\$71,000.00
Japan	Kyoto Nishikawa		\$41,000.00
Japan	Shikibo		\$5,375.00
Japan	Daiwabo		\$6,381.00
Japan	Kurabo		\$11,127.00
Japan	Kanebo		\$2,649.00
Japan	Fujibo		\$5,681.00
Japan	Nisshinbo		\$23,352.00
Japan	Nitobo		\$4,593.00
Japan	Kowabo		\$1,018.00
Japan	Tatsutabo		\$3,099.00
Japan	Toho		\$6,317.00
Japan	Omikenshi		\$2,500.00
Japan	Kondobo		\$7,292.00
Japan	Aitex		\$4,727.00
Japan	Daiichibo		\$1,142.00
Japan	Sinnaigai		\$1,518.00
Japan	Hasetorabo		\$653.00
Japan	Uni-Ace		\$1,614.00
Japan	Yamadabo		\$1,451.00
Japan	Kyungbang		\$6,151.00
Japan	YG		\$597,500.00
Japan	Nishikawa Sangyo		\$73,783.00
Japan	Big John		\$115,167.00
Japan	Edwin		\$113,717.00
Japan	Mitsukoshi		\$85,000.00
France	Santens		\$250,000.00
France	Brax		\$207,000.00
France	Fruit of the Loom		\$141,000.00

COTTON COUNCIL INTERNATIONAL (CONT.)		STATE/COUNTRY	BRANDED COMPANIES	1992 BUDGETED
France			New Man	\$200,000.00
France			Bensimon	\$250,000.00
France			Russell	\$50,000.00
Germany			Christian Dieng	\$200,000.00
Germany			Schiesler	\$418,000.00
Germany			Champion	\$112,000.00
Germany			Fruit of the Loom	\$175,000.00
Germany			Brax	\$198,000.00
Germany			Eminence	\$200,000.00
Germany			Gardeur	\$241,000.00
Germany			Russell	\$50,000.00
Italy			Rifle	\$300,000.00
Italy			Bossi	\$206,000.00
Italy			Champion	\$103,000.00
Italy			Ragno	\$200,000.00
Italy			Chicco	\$104,000.00
Italy			Strenesse	\$200,000.00
UK			Pringle	\$132,000.00
UK			PJ Flower	\$34,000.00
UK			New Man	\$100,000.00
UK			Strenesse	\$100,000.00
UK			Russell	\$50,000.00
SUBTOTAL				\$11,167,268.00
TOTAL BRANDED				\$11,167,268.00

GRAIN AND FEED DIVISION  
USA RICE COUNCIL

STATE/COUNTRY      BRANDED COMPANIES      1992  
BUDGETED

U.S. COMPANIES		
Saudi Arabia	Riceland	\$130,000.00
Saudi Arabia	ARI	\$155,000.00
UAE	Riceland	\$5,850.00
Nether. Antill.	ARI	\$25,000.00
Mexico	Riceland Foods	\$20,000.00
	SUBTOTAL	\$335,850.00
U.S. SUBSIDIARIES		
Sweden	Master Foods	\$24,000.00
Saudi Arabia	Eftemex	\$50,000.00
UAE	Eftemex	\$22,500.00
	SUBTOTAL	\$96,500.00
FOREIGN BRANDS		
Germany	Rickmers	\$40,000.00
Germany	Euryza	\$240,000.00
Germany	Kraft Retail	\$90,000.00
Germany	Kraft Foodservice	\$15,000.00
Sweden	Bengt Lindroth	\$28,000.00
Sweden	De Coen	\$33,400.00
Sweden	AB Juvel	\$32,667.00
United King.	Universe Foods	\$10,000.00
United King.	Tilda Rice	\$300,000.00
United King.	Fisher Frozen Foods	\$8,000.00



USA RICE COUNCIL (CONT.)

STATE/COUNTRY

BRANDED COMPANIES

1992  
BUDGETED

United King.	Stevens & Brotherton	\$12,000.00
United King.	VT Agro Mills	\$100,000.00
South Africa	Taslic Rice	\$95,000.00
Turkey	Akel Tekstil	\$100,000.00
Turkey	Uniyetis	\$200,000.00
Turkey	Tonun	\$50,000.00
Turkey	Ekstra	\$100,000.00
Turkey	Ulusiararsi Acanda	\$50,000.00
Saudi Arabia	Excelco	\$25,000.00
Saudi Arabia	OPRI	\$40,000.00
UAE	Excelco	\$21,650.00

SUBTOTAL

\$1,590,717.00

209

TOTAL BRANDED

\$2,023,067.00

GRAND TOTAL BRANDED CO.

\$84,123,895.00

DATA CURRENT AS OF FEBRUARY 19, 1993

## SUPPORT OF MARKET PROMOTION PROGRAM

Senator BUMPERS. I must say, there are a lot of people in my State, in the poultry and rice industry, who like this program a lot. I am not sure I like it as much as they do. But you are asking for what, \$148 million for 1994?

Mr. SCHROETER. That is correct, which is the same level as this year.

Senator BUMPERS. That is what you plan to spend in 1993?

Mr. SCHROETER. That is right.

Senator BUMPERS. That is a program that is always controversial, because one of these 30-minute television shows are always showing what a scam it is. And then my phones go on overload, and I guess I have been influenced to some extent by that.

Mr. SCHROETER. It has attracted a lot of attention. I guess one reason was the small amount of money that went to McDonald's 1 year, through the Poultry and Egg Institute.

Senator BUMPERS. Are all those products further processed, that you export under that program?

Mr. SCHROETER. About 80 percent of the funds go to what we call high-value products.

Senator BUMPERS. Eighty percent?

Mr. SCHROETER. Eighty percent. It is basically a high-value product program, and we think it has been a very successful program.

Senator BUMPERS. The Russians resist that, do they not? Buying what we call further-processed, or you call high quality?

Mr. SCHROETER. You say the Russians resist it?

Senator BUMPERS. Yes; do they not?

Mr. SCHROETER. Well, we have a problem with the Russians now on some inspection requirements that they are trying to impose; but hopefully we can get that resolved this week, and see that product move again. But we have had some problems there.

## EXPORT CREDIT PROGRAMS

Senator BUMPERS. Back to you, Mr. Goldthwait.

Russia is now behind on their loan payments; so they are not eligible for GSM, are they?

Mr. GOLDTHWAIT. You are correct.

Senator BUMPERS. Is there any suggestion by the administration, that you know of, to waive that in the case of Russia, and to go ahead and lend them favorable credit terms?

Mr. GOLDTHWAIT. Not to my knowledge, under the GSM Program.

Senator BUMPERS. This \$1.6 billion, how much of that is agricultural?

Mr. GOLDTHWAIT. About \$900 million.

Senator BUMPERS. Do you know what the mix of that is?

Mr. GOLDTHWAIT. The \$700 million will be a credit under the Food for Progress Program and \$194 million will be additional donational assistance under different programs.

Senator BUMPERS. Do you consider—this is sort of getting off our jurisdiction here—but do you consider Russian farming practices anything like a level with us? Do they fertilize their crops? Do they use as much fertilizer per acre, for example, as we do?

Mr. GOLDTHWAIT. In some parts of Russia, they actually do. They have undertaken a campaign to increase the intensity of cultivation over the past 10 years or so. And, with respect to production, they have been relatively successful. The major problem is that, when the harvest begins, they begin to lose the harvest. That is, starting with the actual harvest process, and at every step in the chain of processing and distribution, increasing portions of the commodity that has been grown are simply lost, wasted, and spoiled.

Senator BUMPERS. Is it lost in the field during production?

Mr. GOLDTHWAIT. A lot does not actually leave the field, because of poor harvesting techniques; and because the commodity is not really owned by anyone, or at least did not used to be, until the past year or two. The incentive to preserve it, to protect it, to add value to it, simply was not present in the former system.

We are beginning to see signs that some of the new private farmers in Russia are, indeed, doing much better. For example, with potatoes—which is a staple crop—where production increased this past growing season.

But their problem really has been in preserving and improving, adding value, to what they have produced.

Senator BUMPERS. Do you know what the condition, as far as planting this spring, is? Do they have adequate seed? Adequate fuel for their tractors, and so on, to get their crop in this year?

Mr. GOLDTHWAIT. The impression I have is that seed is in relatively good supply. Fuel is expensive for farmers, particularly the new private farmers; and there are probably going to be some shortages or some inability to afford fuel for planting. Overall, the overall outlook as we see it is for a fairly good level of planting; but because growing and harvesting conditions were excellent in a few parts of Russia and some of the other republics last year, like Kazakhstan, we would expect perhaps a slightly smaller total harvest, come this fall.

Senator BUMPERS. Well, that is rather encouraging because I think, you know, food is always the uppermost thing in people's minds, in countries like Russia. And I think that it would enhance Yeltsin's chances of getting his reforms through, more than anything else, if there is an adequate food supply. Nobody is going hungry in Russia right now though, are they?

Mr. GOLDTHWAIT. There are pockets, isolated areas, where people probably are going hungry. Indeed, we are targeting, through American private voluntary organizations, some of those areas with our food aid programs.

#### NORTH AMERICAN FREE TRADE AGREEMENT

Senator BUMPERS. I do not know whether you are the right person, Mr. Goldthwait, to ask this question; but in my State, for example, I have a conflict between food processors and farmers, on the NAFTA Trade Agreement. The farmers do not want it; the processors do. Campbell Food has a big presence in my State, and they feel like they are terribly put upon because of Mexican tariffs, and so on. But the farmers feel that one thing that might happen under the NAFTA Agreement, for example, Mexico does not grow any rice, does it?

Mr. GOLDTHWAIT. Very little.

Senator BUMPERS. Virtually none. And people are afraid, for example, under the agreement, as I understand it, they can export rice. And I do not know why an agreement like that, or why a provision like that would be put in, for a country that does not have any rice, unless they were going to buy it from somebody else and try to reexport it, in competition with that wonderful long-grain rice grown in Arkansas.

Mr. GOLDTHWAIT. I would ask Mr. O'Mara or Mr. Schroeter, who are much closer to the NAFTA negotiations than I, to comment, Senator.

Mr. O'MARA. They do have a higher duty. Mexico has a higher duty on milled rice than they do on the paddy rice; they import the paddy rice.

Senator BUMPERS. Can you tell me what I am supposed to tell the farmers of my State, to placate them if I decide to vote for NAFTA?

Mr. O'MARA. Well, I would think that the farmers in your State, to go back to a point you were making earlier, Mr. Chairman, would be encouraged by any agreement that expands their ability to do more business, in any overseas market. We expect the analysis that we have done, and we would be happy to provide that to you, sir, and other members of the subcommittee, that at the end of the implementation period, net farm exports to Mexico will be, I think, \$2 to \$2.5 billion more than in the absence of an agreement. And certainly, we will do very well on many processed products, as you are hearing from some of your constituents. We are going to do very well in the corn, sorghum, dry bean area. We are looking toward considerable growth in the soybean market there. All these specifics I can provide you, in this analysis.

Mr. SCHROETER. If I could just add one thing, Mr. Chairman. Poultry is the biggest place where I think we are going to see some real gains in NAFTA. Mexico now has a licensing system on poultry.

Senator BUMPERS. Mexico has what?

Mr. SCHROETER. They have a licensing system on poultry that is being eliminated. So within 10 years, we will have a completely free trade with poultry with Mexico, and that is going to be a big and growing market.

Senator BUMPERS. Mr. Schroeter, politicians tend to be a little myopic and they think in short-term solutions. I know everything is going to be hunky-dory at the end of 10 years, but most farmers are afraid they are not going to be around in 10 years, and it is the same way in the industrial sector. That is not our jurisdiction.

Labor, for example, says, well, you are going to have—as I understand the whole theory of NAFTA, which I note in the paper this morning is dead—nobody asked me how I was going to vote, but we are supposed to provide Mexico with all kinds of, what shall I say, methods of enriching themselves over the next 10 years.

Once we make them wealthy they are going to buy a lot more of our products, but during the period we are making them wealthy enough to buy our products, we are going to lose a lot of jobs.

Mr. SCHROETER. I do not think so in the agricultural area, because we were a bit myopic as we were negotiating this agreement,



for example, on poultry, the initial tariff quota was 95,000 tons. That is going to increase regularly over the coming years.

So we are going to sell more poultry in year 1 of the agreement, and that is going to expand over the 10 years. At the end of 10 years it is completely free trade, and the same on corn, rice, and so forth, so it is not gains after 10 years, it is gains every year over the 10-year period.

Senator BUMPERS. As I understand, Campbell's Soup, for example, we will charge them a 10-percent tariff on soups coming into this country, they charge us 40 percent. Under the agreement it goes down to 35 to 30 to 25, and at the end of a certain period of time we are all on a level playing field, and incidentally, they favor—strongly favor the agreement.

Mr. Goldthwait, before I forget it, of the \$700 million in agricultural products going to Russia under this program of the President's, how much of that is poultry?

Mr. GOLDTHWAIT. We have not finalized the commodity mix for that. Under our donational programs, however, within the \$194 million our current planning is that about \$28 million will be poultry.

Senator BUMPERS. \$28 million.

Mr. GOLDTHWAIT. Yes; out of the \$194 million.

Senator BUMPERS. Will that mostly be chicken legs?

Mr. GOLDTHWAIT. I do not know. It could well be, but other poultry products could also be included.

Senator BUMPERS. You know, we almost give those things away. I mean, it is a perfectly good product and it has a lot of protein value and so on, but the American taste buds prefer white meat, and it is very difficult for the poultry industry to get rid of that.

Mr. GOLDTHWAIT. The Russians are very fond of the poultry legs and in fact I recall seeing the famous nesting dolls they make with Mr. Yeltsin on one of the furthest outside holding a poultry leg that says, U.S.

#### MARKET PROMOTION PROGRAM EVALUATION

Senator BUMPERS. Mr. Schroeter, we asked you or we asked the people who run the MPP Program, the Market Promotion Program, to give us an evaluation for the last 5 years, and that was due here February 1. We still have not received it.

Mr. SCHROETER. That is correct. We are still working on it. We have had to send a survey out to the participants, Mr. Chairman, to get about roughly one-half of the information that is required, so that is the reason for the delay. We could have given you an interim report. We decided instead to wait until we got all the information.

Senator BUMPERS. When can we expect the report now?

Mr. SCHROETER. We hope to have this information in June.

Senator BUMPERS. By when?

Mr. SCHROETER. By June, however, some additional time will be required to consolidate and analyze the responses and to prepare the final report.

Senator BUMPERS. OK.

## FOOD FOR PROGRESS ASSISTANCE TO RUSSIA

Another question for you, Mr. Goldthwait, and that is, apparently the President's proposal for assistance to Russia does not include transportation cost. Is that correct?

Mr. GOLDTHWAIT. No; the figures that I gave earlier do include transportation costs.

Senator BUMPERS. Staff tells me that the transportation cost of the Food for Progress portion cannot be covered because of the limitation on the use of CCC funds for that purpose.

Mr. GOLDTHWAIT. There is currently a cap of \$30 million on the use of CCC funds for direct transportation costs under the Food for Progress Program. We are reviewing a possible administrative remedy that might enable us to use additional funds for providing transportation costs. We are working on a solution to that problem at present.

Mr. O'MARA. Mr. Chairman, could I add a point to that question you raised? The Department is actively working with other parts of the administration to find a way to implement the President's commitment at Vancouver as quickly as possible, and that is why the Secretary has been looking at administrative actions rather than a legislative one to take account of the \$30 million limit that Mr. Goldthwait spoke to. As soon as he has completed his internal discussions with the administration he will be in consultation with you with respect to the approach that is decided, and I expect that will take place quite soon.

Senator BUMPERS. Let me just make a suggestion that is probably redundant, but the sooner you do that the better, because if you should happen to have asked for some additional money, we have probably got a supplemental coming through here very shortly. I am not encouraging you to ask for additional money. If you can work it out internally that will be fine.

Mr. O'MARA. Our desire is at this stage to find a way to avoid that, and again I think the Secretary will be in touch with you very quickly on that subject.

## ASCS ADMINISTRATIVE EXPENSES

Senator BUMPERS. Thank you. Mr. Weber, are you looking at a shortfall in your operating budget?

Mr. WEBER. There have been news stories claiming that in fiscal year 1993 we will be closing offices and that type thing. That is not true. We certainly are having our county and State offices look at what they can do to minimize costs. Temporary employees have been laid off, but for our full-time employees we do not expect any layoffs for fiscal year 1993, furloughs or otherwise.

Senator BUMPERS. I did not understand the last part of your answer.

Mr. WEBER. For the balance of this fiscal year we do not expect to have anyone on furlough as has been suggested by some news accounts.

## EMERGENCY CONSERVATION PROGRAM

Senator BUMPERS. OK.

Now, here is a small question dealing with the emergency conservation. You requested \$2,760,000 for the Emergency Conservation Program, and do you not have an awful lot more requests than that right now?

Mr. WEBER. For fiscal year 1993 we started out with \$3 million for the regular program, in addition to a 1992 supplemental of \$27 million that was provided late in the fiscal year for hurricane damage. It has become apparent that those funds were not sufficient, and we are working on a process now to try to get approval to transfer an additional \$31 million to fully cover the cost-shares that producers are eligible for in southern Florida.

We also are expecting that as a result of other disasters that have occurred this year, the funds we have available for the regular 1993 program are not going to be sufficient, and that we think there will be a need for additional funds in the neighborhood of \$8 million.

Senator BUMPERS. Where are you going to transfer \$31 million from?

Mr. WEBER. We are looking to transfer it from the unobligated balance in the Conservation Reserve Program account over to the ECP. We believe there are sufficient funds there.

#### COTTONSEED AND SUNFLOWER OIL PROGRAMS

Senator BUMPERS. Mr. Goldthwait, this question should go to you. The 1993 appropriations bill, in conjunction with the 1990 farm bill, requires you to spend \$50 million on the cottonseed oil and sunflower oil export programs for 1991 through 1995. Are you prepared to spend that amount of money this year?

Mr. GOLDTHWAIT. We are going to try to spend that amount of money.

Senator BUMPERS. How much have you spent so far?

Mr. GOLDTHWAIT. So far this year we have spent under the two programs approximately \$26 million.

Senator BUMPERS. You are well on your way, are you not? That is a very important program to a lot of States, including my own.

Mr. GOLDTHWAIT. We recognize that, and while in the early years we did not spend close to the \$50 million, if you look at the recent history of the program you will see that we are doing a better job of finding opportunities for the use of these programs. We have greatly increased the list of countries where we are introducing the program, and I think the \$26 million shows the results of that effort.

#### ENTERPRISE FOR THE AMERICAS INITIATIVE

Senator BUMPERS. Here is a program that staff gave me a question on that I do not know anything about, I have never heard of. It is called, Enterprise for the Americas Initiative. Do you administer that also?

Mr. GOLDTHWAIT. We do not administer it. It is run largely out of the Treasury Department. The fact, however, is that in last year's budget and again in this year's budget there is a very small provision for some debt forgiveness of Public Law 480, title I debt from loans that were incurred a number of years ago by various



Latin American countries, and that is the connection of the program to our work, and so we follow that very closely.

Senator BUMPERS. Could you provide the committee with a summary of your activities to date by country? Can you do that?

Mr. GOLDTHWAIT. Yes.

[The information follows:]

Enterprise for the Americas agreements were signed by the United States Government with five countries to reduce Title I, Public Law 480 debt. In fiscal year 1991, agreements were signed with Chile for a reduction of 40 percent or \$16 million; Bolivia for a reduction of 80 percent or \$30 million; and Jamaica for a reduction of 80 percent or \$217 million. Congress did not appropriate funding for EAI in fiscal year 1992. Thus far in fiscal year 1993, agreements have been signed with El Salvador for a reduction of 80 percent or \$270 million; and Uruguay for a reduction of 40 percent or \$400,000. Environmental Framework Agreements were signed with Bolivia and Jamaica on November 26, 1991, and February 27, 1992.

#### BOVINE GROWTH HORMONE

Senator BUMPERS. Some of my dairy farmers, and I come from a dairy farmer section in my State, have expressed concerns about the use of bovine growth hormone on the dairy program. Who has charge of this?

Mr. O'MARA. This is AMS, Mr. Chairman. None of us are representing AMS, and I was just asking Mr. Weber if there has been any analysis that he is aware of on that subject and its impact.

Mr. WEBER. I think there is some work being done on that right now, and we certainly would be glad to furnish the committee whatever is available on that subject.

Mr. O'MARA. We will provide you, sir, what has been done.

Senator BUMPERS. I would like that just so I can answer my mail, because I am not a technician on that, and I do not know really what is involved.

Mr. O'MARA. We will do that.

[The information follows:]

The Food and Drug Administration [FDA] has responsibility for the scientific evaluation and approval process for the bovine growth hormone. USDA is monitoring that approval process. To date, no approval or announcement has been made by FDA. USDA will continue to monitor the process.

#### WATER BANK PROGRAM

Senator BUMPERS. One final question, gentlemen, and this deals with the Water Bank Program. If you were to spend through September 30, 1992, \$9,874,000, and you have an appropriation of \$18 million for 1993, how much of that money have you spent and how much do you have left, and this is just a low-grade conservation or wetlands reserve program, is it not?

Mr. WEBER. Yes, it is.

Senator BUMPERS. To tell you the truth, I am wondering why we have this program. Why do we have this, when the same thing is being accomplished, or essentially the same thing is being accomplished with the Wetlands Reserve Program?

Mr. WEBER. I think the difference between the two programs is that the Water Bank Program maintains wetlands by providing farmers an incentive to keep them out of production, whereas the Wetlands Reserve Program enhances the wetlands by encouraging



farmers to remove cropped wetlands from production and restore them. I believe that is the difference.

Senator BUMPERS. I think that is a distinction without a difference, Mr. Weber.

Mr. WEBER. It may be something we need to look at.

Senator BUMPERS. We are going to look at that, because either it needs to be torpedoed or it needs to be merged into the Wetlands Reserve Program, because really the administrative cost of a program that small would be probably too great, and I would suggest those two programs do not need to both exist.

Gentlemen, I thank you very much. Your answers have been helpful.

We are joined by the former mayor of San Francisco, my distinguished colleague, Senator Feinstein. Senator Feinstein, you just got under the wire. We were about to shut this operation down.

Senator FEINSTEIN. I am sorry to be late. I was at the Foreign Operations Subcommittee. That makes three committee hearings in the same day.

Senator BUMPERS. Everybody is in Foreign Operations. Why is that so much more important than this?

Senator FEINSTEIN. The Secretary of the Treasury is there. That is probably why, not that you gentlemen are not as important.

Senator BUMPERS. Do you have any questions?

Senator FEINSTEIN. No, thank you.

#### SUBMITTED QUESTIONS

Senator BUMPERS. Well, in that case, we are honored by your presence, and we thank all of you gentlemen. Additional questions will be submitted for written responses and we ask you to respond to them within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

### QUESTIONS SUBMITTED BY SENATOR BUMPERS

#### DISASTER ASSISTANCE

Question. In 1991, we made \$1,750,000,000 available for disaster payments to farmers for crop years 1990, 1991, and 1992. The first \$995,000,000 was made available immediately for 1990 and 1991 crop losses and the remainder was made subject to a presidential request and emergency designation. Last year, we made an additional \$482,000,000 available of which \$100,000,000 was not available until requested by the President and declared emergency funding. What is the current status of these funds?

Answer. As you indicated, the first disaster supplemental last year authorized a total of \$1.75 billion for disaster payments on crop losses in 1990, 1991, and 1992 under terms and conditions specified in the Food, Agriculture, Conservation, and Trade Act of 1990.

Of the total, \$995 million was made available early in 1992 for losses in either 1990 or 1991. Claims totaled about \$2 billion, and payments for 1990 and 1991 losses in Phase I of the disaster program were based on a prorate factor of 50.04 percent. The additional \$755 million was made available upon request by the President on September 2, 1992. Of the \$755 million, \$100 million was set aside for payments under Phase II of the program to producers with losses on program crops planted in 1991 for harvest in 1992. The remaining \$655 million was made available under Phase III of the program to producers with unclaimed losses in either 1990, 1991, or 1992.

Following Hurricane Andrew, the second disaster supplemental of 1992 authorized an additional \$482 million for Phase III of the program. Of the \$482 million, \$100 million was made available only upon request by the President. The supplemental also authorized additional borrowing if needed to pay producers for losses at the same prorate factor used in Phase I of the program.

In summary, the first and second disaster supplementals made available a total of \$2,132 million for payments on crops losses in 1990, 1991, and 1992. After adjustment for a transfer of about \$11 million to FmHA for migrant labor housing, funds available for disaster payments totaled \$2,121 million.

To date, payments at the 50.04 percent factor total about \$1,616 million, including \$963 million for Phase I, \$97 million for Phase II, and \$556 million for Phase III. An additional \$60 million in payments on Phase III applications already on hand is expected. Current funding for

Phases I, II, and III totals \$2,121 million. Thus, a total of about \$445 million would remain for payments at the 50.04 percent factor after processing applications on hand.

On April 9, 1993 we announced that producers could apply for quality losses on the 1992 corn crop. The application period for payments on corn quality losses closes May 7, 1993. ASCS has estimated these additional payments at the 50.04 percent factor could total about \$150 million. Payments of \$150 million on quality losses would reduce the estimate of remaining funds from \$445 million to \$295 million.

Question. Will you be releasing the extra \$100,000,000?

Answer. A decision on a request for the additional \$100 million, which is not included in the Budget, will be made at a later date.

Question. What is your current estimate of the amount you will be able to pay farmers on each dollar for which he is eligible?

Answer. We will not be able to announce a change in the final pro rate factor, if any, until after the application period for corn quality losses closes and processing of claims is completed. We would estimate, based on anticipated claims, that the additional payment would be less than 10 percent of the initial claim.

Question. Should there be funds left over, will you go back and pay a larger pro rata share to each eligible farmer?

Answer. We would expect to be able to pay a larger pro rate share if the funds remaining allow for more than a negligible supplemental payment. As indicated earlier, we would estimate, based on anticipated claims, that supplemental payments, if any, would amount to less than 10 percent of the initial claim.

Question. Please provide a report on the disposition of these funds showing geographical distribution, the crop years for which the payments are made, and the type of crops and disasters involved. If the final information is not currently available, please provide an interim report showing the disposition and distribution of funds to date.

Answer. An interim report showing distribution of payments by state for Phase I, II and III follows:

Status of Disaster Funds  
As of September 30, 1992

Phase I	
State	Crop Disaster Cumulative Activity Net Expenditures
Alabama	\$25,092,203.00
Alaska	234,559.00
Arizona	2,766,304.00
Arkansas	29,368,043.51
California	54,956,176.41
Colorado	9,874,441.00
Connecticut	942,177.00
Delaware	279,462.00
Florida	23,981,513.00
Georgia	64,490,146.00
Guam	238,155.00
Hawaii	536,436.00
Idaho	12,667,242.00
Illinois	42,712,200.00
Indiana	22,819,569.00
Iowa	31,128,479.00
Kansas	28,756,553.00
Kentucky	6,136,673.00
Louisiana	44,044,239.00
Maine	2,640,817.00
Maryland	2,440,002.00
Massachusetts	3,224,714.00
Michigan	23,158,798.00
Minnesota	27,729,430.11
Mississippi	26,962,698.00
Missouri	25,341,172.00
Montana	18,268,768.00
Nebraska	17,207,270.00
Nevada	2,067,212.00
New Hampshire	246,947.00
New Jersey	7,555,137.00
New Mexico	6,761,113.00
New York	6,551,728.00
North Carolina	14,255,599.00
North Dakota	32,128,319.00
Ohio	16,090,728.00
Oklahoma	22,988,700.00
Oregon	10,039,276.00
Pennsylvania	12,857,248.00
Puerto Rico	1,407,043.00
Rhode Island	108,155.00
South Carolina	13,795,828.71
South Dakota	21,146,569.00
Tennessee	17,034,537.00
Texas	145,526,538.00
Utah	4,318,793.00
Vermont	667,493.00
Virginia	5,183,778.15
Washington	24,692,678.00
West Virginia	1,526,437.00
Wisconsin	9,221,432.00
Wyoming	1,267,414.00
American Samoa	499,095.00
N. Mariana Is.	190,678.00
Undistributed	36,415,469.17
Total Funds Expended	\$962,542,185.06

Source: BU-541R Report



**Status of Disaster Funds  
As of April 21, 1993**

Phase II					
Funds Available			\$100,000.00		
Crop Disaster Weekly Activity			Crop Disaster Cumulative Activity		
	Disbursement	Refund	Disbursement	Refund	Net Expenditures
Alabama	\$0.00	\$0.00	\$69,939.00	\$553.00	
Arizona	0.00	0.00	8,541.00	0.00	
Arkansas	1,362.00	4,016.00	2,486,962.00	6,388.00	
California	(4,460.00)	0.00	596,345.00	9,172.00	
Colorado	11,524.00	23,196.00	5,439,695.00	38,768.00	
Delaware	0.00	0.00	67.00	0.00	
Florida	0.00	0.00	3,270.00	0.00	
Georgia	575.00	0.00	85,144.00	0.00	
Idaho	0.00	0.00	902,201.00	3,454.00	
Illinois	505.00	0.00	4,565,579.00	2,652.00	
Indiana	0.00	0.00	3,456,258.00	14,232.00	
Iowa	(305.00)	0.00	112,303.00	86.00	
Kansas	16,493.00	275.00	24,436,853.00	98,724.00	
Kentucky	0.00	0.00	18,985.00	0.00	
Louisiana	0.00	0.00	442,916.00	0.00	
Maryland	0.00	0.00	1,762.00	0.00	
Michigan	3,565.00	263.00	267,554.00	4,751.00	
Minnesota	0.00	0.00	31,559.00	169.00	
Mississippi	136.00	0.00	206,503.00	0.00	
Missouri	195.00	0.00	1,860,237.00	5,013.00	
Montana	32,594.00	152.00	10,660,288.00	19,959.00	
Nebraska	0.00	0.00	10,679,801.00	6,895.00	
Nevada	0.00	0.00	229,182.00	80,903.00	
New Mexico	0.00	0.00	479,772.00	1,306.00	
New York	0.00	0.00	27,863.00	85.00	
North Carolina	0.00	0.00	18,966.00	37.00	
North Dakota	0.00	0.00	24,727.00	0.00	
Ohio	1,163.00	0.00	1,297,449.00	3,818.00	
Oklahoma	35,440.00	37.00	7,320,282.00	9,734.00	
Oregon	0.00	0.00	1,366,488.00	984.00	
Pennsylvania	0.00	0.00	3,908.00	0.00	
South Carolina	0.00	0.00	31,899.00	266.00	
South Dakota	0.00	2,407.40	5,926,488.00	6,432.40	
Tennessee	0.00	0.00	168,664.00	24.00	
Texas	354.00	200.00	8,873,203.00	13,835.00	
Utah	0.00	0.00	285,718.00	0.00	
Virginia	0.00	0.00	10,077.00	0.00	
Washington	0.00	0.00	2,638,203.00	6,743.00	
West Virginia	0.00	0.00	1,060.00	0.00	
Wisconsin	387.00	0.00	1,576,433.00	8,256.00	
Wyoming	0.00	0.00	427,515.00	367.00	
Totals	\$99,528.00	\$30,546.40	\$97,040,659.00	\$343,606.40	\$96,697,052.60
Phase II Balance					\$3,302.94

Status of Disaster Funds  
As of Apr. 21, 1993

Funds Available		Phase III										1,026,200,000.00
Weekly Activity		Cumulative Activity										
		Tree Assistance Program			Crop Disaster			Tree Assistance Program			Net	
		Disbursement	Refund	Freeze, Drought, Earthquake	Disbursement	Refund	Freeze, Drought, Earthquake	Disbursement	Refund	Freeze, Drought, Earthquake	Expenditures	
Alabama		\$20,456.00	\$68.00	\$0.00	\$0.00	\$0.00	\$11,386,348.00	\$10,466.50	\$0.00	\$0.00		
Alaska		0.00	0.00	0.00	0.00	0.00	375,531.00	0.00	0.00	0.00		
Arizona		105,814.00	0.00	0.00	0.00	0.00	3,438,200.18	10,885.10	0.00	0.00		
Arkansas		26,804.00	0.00	0.00	0.00	0.00	11,718,930.50	6,405.00	0.00	0.00		
California		294,828.00	5,421.00	0.00	0.00	0.00	21,798,043.00	12,797.00	0.00	426,232.00		
Colorado		57,889.00	0.00	0.00	0.00	0.00	3,278,687.00	10,403.00	0.00	0.00		
Connecticut		0.00	0.00	0.00	0.00	0.00	995,782.00	0.00	0.00	0.00		
Delaware		2,192.00	0.00	0.00	0.00	0.00	172,579.49	0.00	0.00	0.00		
Florida		1,092,636.00	0.00	0.00	0.00	0.00	9,302,323.00	585.00	0.00	0.00		
Georgia		637,014.00	6,110.00	0.00	0.00	0.00	22,169,367.24	32,878.00	0.00	0.00		
Hawaii		0.00	0.00	0.00	0.00	0.00	632,330.00	0.00	0.00	0.00		
Idaho		144,051.00	4,042.00	0.00	0.00	0.00	13,598,366.90	19,930.00	0.00	65,694.00		
Illinois		40,259.00	0.00	0.00	0.00	0.00	4,476,167.00	5,514.00	0.00	4,118.00		
Indiana		29,606.00	0.00	0.00	0.00	0.00	4,592,482.00	33,093.00	0.00	7,930.00		
Iowa		46,671.00	220.00	0.00	0.00	0.00	4,287,362.00	1,600.00	0.00	7,739.00		
Kansas		139,730.36	4,002.00	0.00	0.00	0.00	5,522,422.36	7,503.00	0.00	0.00		
Kentucky		26,012.00	0.00	0.00	0.00	0.00	702,554.00	0.00	0.00	0.00		
Louisiana		542,755.00	0.00	0.00	0.00	0.00	12,580,516.01	2,777.00	0.00	0.00		
Maine		114,135.00	0.00	0.00	0.00	0.00	4,959,115.00	0.00	0.00	0.00		
Maryland		7,320.00	0.00	0.00	0.00	0.00	755,046.00	2,467.00	0.00	0.00		
Massachusetts		37,146.00	0.00	0.00	0.00	0.00	1,397,232.00	0.00	0.00	0.00		
Michigan		2,002,836.00	1,955.00	0.00	0.00	0.00	35,145,143.48	112,954.00	0.00	4,361.00		
Minnesota		31,067.00	831.00	0.00	0.00	0.00	23,143,463.84	31,987.51	0.00	0.00		
Mississippi		467,095.00	0.00	0.00	0.00	0.00	8,460,391.55	17,921.00	0.00	607.00		
Missouri		14,801.00	0.00	0.00	0.00	0.00	7,147,556.75	20,453.86	0.00	885.00		
Montana		182,774.00	5,570.00	0.00	0.00	0.00	14,030,511.99	36,811.00	0.00	0.00		
Nebraska		46,456.00	7,834.00	0.00	0.00	0.00	15,094,182.54	67,832.00	0.00	0.00		
Nevada		1,418.00	0.00	0.00	0.00	0.00	2,536,512.00	149.00	0.00	0.00		
New Hampshire		0.00	0.00	0.00	0.00	0.00	282,438.00	0.00	0.00	0.00		

Phase III												1,026,200,000.00	
Funds Available													
Weekly Activity													
	Crop Disaster			Tree Assistance Program			Cumulative Activity			Tree Assistance Program			Net Expenditures
	Disbursement	Refund		Freeze, Drought, Earthquake	Disbursement	Refund	Crop Disaster	Disbursement	Refund	Freeze, Drought, Earthquake	Disbursement	Refund	
New Jersey	208,413.00	0.00		0.00	0.00		2,213,785.00	599.00		0.00	0.00		
New Mexico	13,500.00	0.00		0.00	0.00		3,904,732.30	4,582.66		0.00	0.00		
New York	101,249.00	1,444.00		0.00	0.00		14,602,825.82	17,558.00		0.00	0.00		
North Carolina	231,918.00	0.00		0.00	0.00		8,967,501.00	6,515.00		0.00	0.00		
North Dakota	15,029.00	367.00		0.00	0.00		16,342,920.18	15,503.00		0.00	0.00		
Ohio	297,582.00	0.00		0.00	0.00		4,918,529.53	319.00		503.00	0.00		
Oklahoma	51,512.00	807.00		0.00	0.00		9,011,057.22	37,840.00		0.00	0.00		
Oregon	139,517.00	0.00		0.00	0.00		5,019,509.52	5,406.00		0.00	0.00		
Pennsylvania	30,671.00	0.00		0.00	0.00		2,345,735.46	279.00		0.00	0.00		
Puerto Rico	79,940.00	0.00		0.00	0.00		429,354.00	0.00		0.00	0.00		
Rhode Island	0.00	0.00		0.00	0.00		8,763.00	0.00		0.00	0.00		
South Carolina	72,192.00	182.00		0.00	0.00		9,783,497.00	30,771.00		0.00	0.00		
South Dakota	30,283.00	488.00		0.00	0.00		17,898,861.00	44,217.00		0.00	0.00		
Tennessee	482,039.00	0.00		0.00	0.00		13,562,756.62	4,755.00		0.00	0.00		
Texas	349,397.81	1,087.00		0.00	0.00		156,508,871.41	400,360.89		0.00	0.00		
Utah	13,087.00	0.00		0.00	0.00		2,007,546.00	4,613.00		0.00	0.00		
Vermont	465.00	0.00		0.00	0.00		233,012.00	112.00		0.00	0.00		
Virginia	7,756.00	0.00		0.00	0.00		2,550,662.23	4,901.00		0.00	0.00		
Washington	144,743.00	19.00		0.00	0.00		9,914,052.00	10,636.00		0.00	0.00		
West Virginia	0.00	0.00		0.00	0.00		210,203.00	0.00		0.00	0.00		
Wisconsin	63,763.00	262.00		0.00	0.00		28,652,250.80	123,307.79		925.00	0.00		
Wyoming	8,407.00	81.00		0.00	0.00		2,244,015.50	721.00		0.00	0.00		
Amer. Samoa	266,733.00	0.00		0.00	0.00		1,402,303.00	0.00		0.00	0.00		
N. Mariana Is.	0.00	0.00		0.00	0.00		235,280.00	0.00		0.00	0.00		
Totals	\$8,719,962.17	\$40,790.00		\$0.00	\$0.00		\$556,947,608.42	\$1,158,408.31		\$519,092.00	\$0.00		\$556,308,292.11
Phase III Balance												469,891,707.89	



## DISASTER PAYMENTS

Question. Last week several Senators complained to Secretary Espy that crops other than corn should be able to receive disaster payments based on a reduce quality harvest. The Secretary was unaware of petitions from other crop producers. By now I assume that has changed. What other crops are you considering making eligible for disaster payments based on low quality?

Answer. We are attempting to be as responsive as possible to the legitimate needs of producers while keeping a watchful eye on budgetary costs. Our response regarding the 1992 corn crop, an extension of prior procedures used to exclude contaminated corn from disaster production, reflects the severity of quality losses and the fact that for many corn producers in the northern corn belt states, the quantity harvested made them ineligible for assistance although the value of their crop, because of low quality, was practically worthless. The further extension of quality adjustment procedures to wheat and other program crops is under review.

It should be noted that to some extent procedures for determining benefits under the disaster program already take into account quality problems for other program and nonprogram crops. For example, standard test weights, instead of actual test weight, is used to calculate disaster yields. Other adjustments include the exclusion from calculated production of cotton modules left in the field, exclusion of aflatoxin-contaminated corn, and, for nonprogram crops, the exclusion of harvested quantities which because of quality problems are unmarketable.

Question. I understand that the sign up for disaster assistance for 1992 crops ended in mid-February. When do you expect to issue checks for those applicants?

Answer. We have already begun to issue checks. Checks are sent to producers as soon as the necessary production data and other information are submitted to the county office.

Question. Do you know yet what the amount of legitimate claims totals?

Answer. As of April 21, approximately \$653 million in payments had been made to producers with losses on program crops planted in 1991 for harvest in 1992 or to producers with unclaimed losses in either 1990, 1991 or 1992.

Question. How much will you be able to pay on each claim?

Answer. All crop loss payments are being issued at 50.04 percent of the computed eligible assistance amount.



## FEDERAL CROP INSURANCE

Question. What resources is ASCS allocating in 1993, and what do you propose for 1994, for the sales and loss adjustment of federal crop insurance policies?

Answer. FCIC provided training to two ASCS State office employees in each State for 1993 sales and service of Federal crop insurance policies; however, there has been very minimal activity so far in 1993. Due to the inactivity related to crop insurance policies in 1993, it is estimated that ASCS will again have minimal crop insurance workload in 1994.

Question. Explain how you are fitting crop insurance activities into your operation.

Answer. Crop insurance participation through ASCS State offices has been so minimal that the workload is being absorbed by current employees who are assigned to other program areas. There has been no increase in State office staffing as a result of crop insurance activities.

## CONSERVATION RESERVE PROGRAM

Question. A recent GAO report on the Conservation Reserve Program is somewhat critical. It states that the program is expensive, the protection is temporary, and that a precise dollar value of CRP's environmental benefits cannot be determined. How do you respond?

Answer. Although not all environmental benefits can be quantified, the primary objective of the CRP can be quantified. The CRP is costing less than \$50.00 per acre per year and is saving over 19 tons of soil per acre annually. The cost per ton of soil saved under the CRP is, therefore, approximately \$2.50. In addition, the CRP has reduced excess crop production, improved the nation's water quality, and enhanced wildlife habitat throughout the country on approximately 36 million acres. Several State and local wildlife and environmental groups have been studying the effects of the CRP and preliminary reports are positive and favorable regarding the results of improved ecosystems and the multiple benefits derived through the CRP.

Question. Some have criticized USDA because recent acres entered into the CRP were taken because of their crop production history rather than their environmental contribution. How do you respond?

Answer. Beginning with the tenth CRP signup, USDA accepted bids based on an index of environmental benefits per dollar expended. Only those bids that were at or below the prevailing local rental rate for the area offered and that provided the highest level of environmental benefits per CRP dollar expended have been accepted.

The crop production history does not have any bearing upon the selection process other than to establish basic eligibility under the Food Security Act of 1985 and to help determine the prevailing local rental rate.

Question. With contracts beginning to expire in 1996, I understand that 75 percent of the land in CRP must have a USDA-approved conservation plan to participate in farm programs. What about the other 25 percent?

Answer. The other acres represent certain types of land that will not need to be under a plan. First, 6.8 percent of the acreage enrolled into the CRP has been planted to trees. Based on the retention of trees under other programs, we believe these acres will not soon be broken out for annual cultivation. Second, the acres enrolled in CRP had only to be "predominately" highly erodible. USDA defined "predominately" to mean that at least two-thirds of the offered acres had to meet the eligibility criteria. Although we do not know precisely the number of non-highly erodible land (HEL) acres included under contract as a part of a whole field or to square a field off for ease of farming, we believe it is 10-15 percent. Finally, during the eighth and ninth signups USDA enrolled as many as 400,000 wetland acres under the CRP nationwide. These acres are not likely to be broken out if wetland restoration has been performed, and are of such land class that even if broken out, an HEL plan will not be required. Taken together, these three categories of land that do not need plans are estimated to account about 25 percent of enrolled acres.

## BST

Question. Concern has been expressed about the effects of the use of a bovine growth hormone on the dairy program. Have you analyzed the effect of the use of BST on the cost of the program? If so, what have you learned? If not, do you plan to do so?

Answer. As you know, the Food and Drug Administration has responsibility for the approval of bovine Somatotropin (BST). USDA, however, is continuing to monitor the process. In the ongoing work by USDA analysts on the supply-demand conditions for dairy, the approval and adoption of BST is assumed by late 1993. Therefore, its usage already is included in dairy program budget estimates. No attempt has been made to isolate the effects of BST from other ongoing management practices used by dairy farmers.

## FARM SERVICE AGENCY

Question. Please provide a crosswalk showing all accounts which will be part of the proposed Farm Service Agency. For each account, show what the 1993 funding level is and what the budget includes for the same activities in 1994 under the FSA.

Answer. All ASCS accounts are proposed for inclusion under the Farm Service Agency. The program accounts continue to appear individually in the FSA budget but beginning in 1994 exclude technical assistance funding, which is requested within the FSA Salaries and Expenses account. Also beginning in 1994, the ASCS Salaries and Expenses account is no longer separately identified but is consolidated into FSA Salaries and Expenses.

The following table compares 1993 and 1994 funding for these accounts:

**FY 1993 APPROPRIATION / FY 1994 PRESIDENT'S BUDGET ESTIMATES**  
**Budget Authority**  
**(Dollars in Thousands)**

Account	FY 1992 Appropriation	FY 1993 Appropriation	FY 1994 President's Budget	Change, 1993 Appropriation vs. 1994 Request
CRP	1,611,277	1,576,517	1,755,541	177,024
ACP	194,435	194,435	150,400	-44,035
WRP	46,357	0	370,260	370,260
Salinity	14,763	13,763	8,499	-5,264
FIP	12,446	12,446	11,504	-942
WBP	18,620	18,620	17,130	-1,490
ECP	22,500 a/	13,500 b/	2,760	-10,740
Dairy Indemnity	5	5	5	0
<b>TOTAL</b>	<b>1,920,423</b>	<b>1,831,306</b>	<b>2,316,099</b>	<b>484,793</b>
<b>Salaries and Expenses</b>				
Direct Appropriation	719,289	712,926	706,745 c/	-6,161
Transfer to OSEC	-96	-212	0	212
Equipment and other ADP related	0	0	90,379	90,379
Program Account Transfers				
(Credit Reform)	1,162	0	0	0
<b>TOTAL, S&amp;E</b>	<b>720,353</b>	<b>712,714</b>	<b>797,124</b>	<b>84,410</b>

a/ Includes \$16.5 million in supplemental funding provided by P.L. 102-368, to remain available through September 30, 1993.

Excludes \$10.5 million in contingency funds for release only upon official request by the President.

b/ Includes \$10.5 million in contingency funds provided by P.L. 102-368, and released 12-30-92, to remain available through September 30, 1993.

c/ Reflects only "regular" S&E appropriation. Excludes proposed direct appropriation of \$90,379,000 for equipment and ADP related costs previously funded by the Commodity Credit Corporation. Total appropriation for FSA Salaries and Expenses is \$1,594,148,000.



## WATER BANK PROGRAM

**Question.** A recent report on the Water Bank Program shows a national annual payment through September 30, 1992 of \$9,874,241. Given a 1993 appropriation of \$18,620,000, for what is the remainder of the money being used?

**Answer.** Under the Water Bank Program, USDA enters into 10-year agreements with landowners and operators, and obligates the full cost of the 10-year agreement at the time the agreement is approved but makes annual payments over the 10-year period. The \$9,874,241 is the total payment in 1992 for the 1983 through 1992 WBP agreements.

The FY 1993 appropriation of \$18,620,000 will be used to renew selected expired 1983 agreements, sign new 1993 agreements, adjust payment rates for 1989 agreements, and fund related technical assistance necessary to service WBP agreements.

The amount of the annual payment in 1992 is much lower than the amount appropriated in 1993 because the amount appropriated for WBP during 1982 through 1992 ranged from \$8.4 million to \$13.6 million.

## CHESAPEAKE BAY

**Question.** What amount of funding is in the budget for Chesapeake Bay work, and what are the corresponding FTE's?

**Answer.** ASCS does not specifically earmark funds in the budget for Chesapeake Bay conservation work. However, our existing conservation programs such as ACP and CRP have historically provided a great deal of financial assistance on conservation work within the Chesapeake Bay watershed. In FY 1992, approximately \$4.8 million was paid to producers to install conservation practices within the watershed. Another \$9.5 million of annual rental payments were made in FY 1992 to retire highly erodible or environmentally sensitive cropland under the CRP.

There are no corresponding FTE's that relate directly to the financial cost-share assistance and rental payments to producers in the watershed. Certainly, ASCS has administrative costs associated with its conservation payments in the watershed area but has no specific FTE data available. SCS may have such data available, since SCS' technical assistance work is all personnel related.

## EMERGENCY USE OF CCC FUNDS

**Question.** Please submit a list for the last 10 years showing the occasions when emergency CCC authority was invoked. Provide the emergency, the amount of funds used, and the manner in which they were used.

Answer. Section 1 of the Act of September 25, 1981 (7 U.S.C. 147) authorizes the Secretary of Agriculture, in connection with emergencies which threaten any segment of the agricultural production industry of this country, to transfer from other appropriations or funds available to the agencies or corporations of the Department of Agriculture such sums as the Secretary may deem necessary, to be available only in such emergencies for the arrest and eradication of plant pests or contagious or infectious diseases of animals or poultry, and for expenses in accordance with 7 U.S.C. 147b and 21 U.S.C. 114b.

Under this authority, the Secretary had declared various emergencies with respect to plants or animals since fiscal year 1982 and funds have been transferred from the Commodity Credit Corporation to the Animal and Plant Health Inspection Service (APHIS) to fund portions of these animal and plant disease emergency eradication programs. We will provide for the record a table showing the purpose and amount of funds transferred from CCC to APHIS during each fiscal year since fiscal year 1983.

[The information follows:]

CCC Transfers to the Animal & Plant Health Inspection Service  
Fiscal Years 1983 through 1992  
(thousands of dollars)

	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992
Mediterranean Fruit Flies	\$7,500									
Mediterranean, Mexican, and Oriental Fruit Flies							\$31,424	\$5,710		\$8,156
African Swine Fever	6,300									
Avian Influenza		\$66,300								
Grasshopper Infestation		400	\$2,078							
Citrus Canker			14,622	\$7,938						
Gypsy Moths			6,000							a/ 9,955
Loan to APHIS for Bollweevil							\$6,200	-1,500		-4,700
Salmonella Enteritidis							6,832			
<b>TOTAL</b>	<b>13,800</b>	<b>66,700</b>	<b>22,700</b>	<b>7,938</b>	<b>0</b>	<b>0</b>	<b>6,200</b>	<b>38,256</b>	<b>4,210</b>	<b>13,411</b>

a/ \$2,800,000 was transferred to the Forest Service in 1992 under the Gypsy Moth Declaration of Emergency.

## QUESTION SUBMITTED BY SENATOR KERREY

## CCC HAZARDOUS WASTE MANAGEMENT

Question. CCC was provided up to \$3 million in FY 93 for operation and maintenance costs associated with the management of CCC hazardous waste sites. Approximately \$16 million in additional funds were provided to the Department's Hazardous Waste Management account for actual containment, cleanup, monitoring, and inspection costs related to the sites.

What is the Administration's FY 1994 request for CCC Hazardous Waste Management activities and the Department's Hazardous Waste Management program? Please provide the location of each site for which FY 94 funds are being requested, the amount of funds likely to be allocated to each site, the expected additional cost of completing work at those sites, and the location of additional sites for which CCC anticipates requesting cleanup funds in the future.

Answer. The fiscal year 1994 request for CCC Hazardous Waste Management activities is \$4 million for operation and maintenance costs associated with the management of CCC hazardous waste sites. The fiscal year 1994 request for the Department's Hazardous Waste Management program is \$16 million of which \$3 million is for site investigation and cleanup costs at CCC related sites. The attached chart provides the location of each site for which FY 1994 funds are requested, the amount of funds allocated for each site, the anticipated future funding needs of these sites, and the location of additional sites for which funding will be needed in future years.

[The information follows:]



## CCC and USDA Hazardous Waste Management Program

USDA/CCC Cleanup and Compliance (Funding from USDA appropriations)			
Fiscal Year 1994 Budget (in full dollars)			
Location of CCC Sites	FY 1994 Funds Requested	Anticipated Future Funding of these Sites	Location of Additional Sites not Included in FY 94 Budget
City and State	\$0	\$0	City and State
Murdock, NE	400,000	\$1,000,000	Plainville, KS
Ulrich, NE	400,000	\$1,300,000	Morrill, KS
Hubbard, NE	100,000	0	Leoti, KS
Clay Center, NE	100,000	0	Deshler, NE
Adams, NE	100,000	2,000,000	Cortland, NE
Humphrey, NE	100,000	0	Agenda, KS
Agra, KS	100,000	0	Randall, KS
York, NE	500,000	1,300,000	Emerald, NE
Aurora, NE	50,000	2,000,000	Hackney, KS
Potwin, KS	50,000	0	Gladstone, NE
Bruno, NE	700,000	\$1,000,000	Ramona, KS
Navarre, KS	100,000	\$1,900,000	Merrill, NE
Miscellaneous	300,000		Frankfort, KS
Total	\$3,000,000	\$10,400,000	

CCC Operations and Maintenance (Funding from CCC, subject to appropriation language limitation)			
Fiscal Year 1994 Budget (in full dollars)			
Location of CCC Sites	FY 1994 Funds Requested	Anticipated Future Funding of these Sites	Location of Additional Sites not Included in FY 94 Budget
City and State	\$0	\$0	City and State
Waverly, NE	1,000,000	3,000,000	Hackney, KS
Harville, NE	100,000	900,000	Aurora, NE
Murdock, NE	1,000,000	1,500,000	Potwin, KS
Ulrich, NE	500,000	2,000,000	Hubbard, NE
York, NE	500,000	2,000,000	Clay Center, NE
Shelby, NE	100,000	900,000	Adams, NE
Navarre, KS	300,000	2,200,000	Humphrey, NE
Bruno, NE	500,000	2,000,000	Agra, KS
Total	\$4,000,000	\$14,500,000	

Leoti, KS  
Deshler, NE  
Cortland, NE  
Agenda, KS  
Randall, KS  
Emerald, NE  
Ramona, KS

Merrill, NE  
Frankfort, KS  
Perry, KS  
Powhattan, KS  
Tabor, NE  
Furk, NE  
Gardner, NE  
Ceresco, NE

Johnson, NE  
Ruskin, NE  
Yoder, KS  
Hastings, NE  
Walton, NE  
Wright, KS  
Bedard, KS  
Hutchinson, KS

## QUESTIONS SUBMITTED BY SENATOR KOHL

## INTEGRATED FARM MANAGEMENT PROGRAM

Question. It has come to my attention that the commodity program flexibility option known as the Integrated Farm Management (IFM) program has been mired in implementation problems, including program rules that do not fully match the intent of Congress as expressed in the statute and legislative history, and a lack of information and training on the program option at the State and county level. In the first two years, less than 100,000 acres have been enrolled, and some of these farmers now enrolled are having their payments reduced based on what appears to be faulty interpretations of the "traditionally underplanted acreage" provision.

I would like to know whether any review of the rules or the program handbook provisions on IFM is currently taking place. Is the program being administered in the most farmer-friendly manner possible and are the concerns of the sustainable agriculture farmer networks being addressed?

Answer. ASCS has administered IFM with careful regard to making the program as farmer-friendly as possible within the statute. Sustainable agriculture groups have sent several letters expressing concerns about the provisions of IFM. These concerns have been addressed by representatives of ASCS and many of the concerns have brought about changes in policy.

Question. Also, how many farms and how many acres were enrolled in the most recent signup period?

Answer. This information is not available at this time. Total crop acreage base acres enrolled for 1991 and 1992 are 96,039.5. A State summary of IFM acreage enrollment is provided.

[The information follows:]

STATE SUMMARY OF IFM CONTRACT ACREAGE ENROLLMENT  
FOR 1991 and 1992 PROGRAM YEARS

	1991 IFM ENROLLMENT	1992 IFM ENROLLMENT	TOTAL IFM ACRES
ALABAMA	1,284.4	366.1	1,650.5
ALASKA	0.0	0.0	0.0
ARIZONA	0.0	0.0	0.0
ARKANSAS	0.0	6,037.4	6,037.4
CALIFORNIA	0.0	0.0	0.0
COLORADO	180.6	0.0	180.6
CONNECTICUT	0.0	0.0	0.0
DELAWARE	0.0	0.0	0.0
FLORIDA	0.0	0.0	0.0
GEORGIA	62.0	0.0	62.0
IDAHO	813.2	1,936.4	2,749.6
ILLINOIS	1,435.4	1,664.7	3,100.1
INDIANA	237.2	407.2	644.4
IOWA	1,728.2	3,897.4	5,625.6
KANSAS	10,117.0	1,429.0	11,546.0
KENTUCKY	0.0	0.0	0.0
LOUISIANA	50.2	696.3	746.5
MAINE	287.7	287.7	575.4
MARYLAND	0.0	128.2	128.2
MASSACHUSETTS	0.0	0.0	0.0
MICHIGAN	1,495.9	269.9	1,765.8
MINNESOTA	5,181.4	6,970.0	12,151.4
MISSISSIPPI	607.8	586.0	1,193.8
MISSOURI	477.0	229.8	706.8
MONTANA	5,626.2	1,930.4	7,556.6
NEBRASKA	897.8	3,176.9	4,074.7
NEVADA	758.2	0.0	758.2
NEW HAMPSHIRE	0.0	0.0	0.0
NEW JERSEY	0.0	0.0	0.0
NEW MEXICO	613.4	0.0	613.4
NEW YORK	0.0	0.0	0.0
NORTH CAROLINA	157.2	0.0	157.2
NORTH DAKOTA	8,053.5	392.9	8,446.4
OHIO	171.6	768.0	939.6
OKLAHOMA	0.0	138.8	138.8
OREGON	6,372.7	2,755.3	9,128.0
PENNSYLVANIA	384.7	0.0	384.7
RHODE ISLAND	0.0	0.0	0.0
SOUTH CAROLINA	882.7	0.0	882.7
SOUTH DAKOTA	3,567.6	1,594.8	5,162.4
TENNESSEE	464.0	428.6	892.6
TEXAS	2,930.9	3,912.8	6,843.7
UTAH	0.0	0.0	0.0
VERMONT	0.0	0.0	0.0
VIRGINIA	0.0	0.0	0.0
WASHINGTON	0.0	0.0	0.0
WEST VIRGINIA	107.4	0.0	107.4
WISCONSIN	820.1	268.9	1,089.0
WYOMING	0.0	0.0	0.0
TOTALS	55,766.0	40,273.5	96,039.5

## NOTE:

- IFM contracts are for a minimum of three years, but at producer's option may be extended another two years.
- Farm IFM resource-conserving crop (RCC) acreage must be at least 20 percent of participating program crop CAB's.

Question. Finally, what plans have been made to more thoroughly train State and local personnel on the intricacies and opportunities presented by the IFM program? When and how will the training take place?

Answer. National training was provided for all programs in 1991, including IFM. There are no plans to provide additional training at this time.

### INTEGRATED CROP MANAGEMENT

Question. The Integrated Crop Management (ICM) cost-share practice under the Agriculture Conservation Program (ACP) incorporates pest and nutrient management, crop selection and rotation, and other measures to reduce the use of agrichemicals and prevent pollution. Payments are made for 3 years while the management practices are being implemented. Basic pesticide and nutrient recordkeeping is required. The program appears to be highly successful. However, it has been limited to 5 counties per State and 20 farms per designated county.

If the ICM program is as successful as it appears, why does it continue to be limited?

Answer. The Integrated Crop Management or SP-53 practice was generally limited to 20 producers per county and 5 counties per State at the time the practice was implemented. This policy provided the Agricultural Stabilization and Conservation Service time to evaluate the effectiveness of ICM before it was expanded to other counties. In the Water Quality Demonstration Project in Wisconsin, the use of the ICM practice has resulted in over a 60 pound per acre reduction of purchased nitrogen inputs. In a recent study in West Virginia, the ICM practice resulted in an average reduction of 19 pounds per acre of nitrogen and 19 pounds per acre of phosphorus along with significant reductions in pesticides. In view of these results, ASCS is considering the National Conservation Review Group recommendation to expand ICM nationwide.

Question. What actions would be necessary for it to become an available option in all counties?

Answer. USDA can administratively expand the availability of ICM.

Question. How much money has been spent on ICM in each year that it has been available?



Answer. Funding for the ICM has been as follows:

<u>Fiscal Year</u>	<u>ICM Funding</u>
1990	\$213,000
1991	1,123,000
1992	<u>1,675,252</u>
TOTAL	\$3,011,252

Question. How many producers, if any, have had applications for funding turned down, and for what reasons?

Answer. ASCS has not collected any data on the applications that were denied funding.

Question. Have any lessons been learned from the ICM experience to date that could be applied to the rest of ACP?

Answer. The ICM practice has promoted a more holistic approach to resource management. By assisting producers in implementing a total crop management system, ICM provides the opportunity to more efficiently use both natural resources and purchased inputs to produce a crop in an environmentally sound manner. By giving producers an incentive payment along with additional technical assistance, producers can achieve significant pollution reduction while increasing farm profitability. The ICM demonstrates the importance of soil testing, scouting, sprayer calibration, and other crop management techniques so that they may farm more efficiently while protecting the environment. Many of the concepts used under ICM have been incorporated into the requirements for the Water Quality Incentive Projects which are also operated under the Agricultural Conservation Program.

Question. What recommendations concerning ICM would you make to this Subcommittee as we take up this year's bill?

Answer. The ICM practice is a labor intensive practice requiring high levels of management and is dependent on technology transfer from universities and research institutions through crop consultants and extension agents to producers. ICM is dependent on the availability of crop consultants and extension agents that have the long-term commitment to work with the producers. Currently, there are many areas of the country that do not have sufficient numbers of trained crop consultants to implement ICM on a wide scale. The use of ICM would be facilitated if seed money was made available for training crop consultants and extension agents in ICM techniques. Incentives for establishing crop management associations and delivery of educational programs would further the use of ICM.

## QUESTIONS SUBMITTED BY SENATOR COCHRAN

## ASCS AUTOMATED DATA PROCESSING CAPABILITIES

Question. ASCS State and county offices now utilize computer-based procedures to conduct day-to-day support to producers. The budget justification indicates that the current system is reaching the end of its life and that the agency is in the process of identifying technologies to extend this system until it can be replaced.

What funding is included in the fiscal year 1994 budget to extend the life of the current system? What are the long-term plans for replacement of this system and what investment will be required?

Answer: Funding of \$14.1 million is included in the FY 1994 budget to extend the system life of the current computer system used by ASCS State and county offices. ASCS has initiated a System Technology and Telecommunications Enhancement Program (STEP) as a means of obtaining a replacement system for our State and county offices beginning in fiscal year 1995. The Department is coordinating this effort under an initiative called the USDA Info Share Program. This initiative will have to be integrated into the framework of the Department's streamlining and Farm Service Agency reorganization. However, the Budget currently includes no funding in future years for STEP or the USDA Info Share Program.

Question. For many years, the ASCS has reported the need to gain the capabilities to manage its programs through the electronic transfer of information between ASCS and other USDA agencies, such as the Agricultural Marketing Service (AMS). Current capabilities are limited in terms of transferring data electronically between ASCS county offices and the Agricultural Marketing Service relating to cotton classing and marketing information. Limiting factors such as this cause farmers to utilize other methods for transferring data from one USDA agency to another which are more costly and less timely, in terms of accomplishing important savings in farm marketing and management. I would hope that ASCS and AMS will coordinate to fully accomplish the capability of transferring data that allow producers to make CCC loan entries at the ASCS office electronically this year.

Could you please give the Committee a status report on your efforts to accomplish these objectives and please present us with any explanation of problems that might hinder efforts to reach this goal such as inadequate equipment, software, etc.?

Answer. Recognizing the need to better serve cotton producers, we have developed, in cooperation with the Agricultural Marketing Service (AMS), a process to electronically obtain AMS's classing data which is necessary to process producers' CCC price support loans. Unfortunately,

we cannot effectively use our existing county office computer systems to obtain this data. However, the data can be obtained using personal computers (PC). We currently have personal computers in 35 county offices. These PC's will be used for the 1993 crop year to obtain this data. The number of county offices in which these PC's are located by State are: Alabama, 2; Arkansas, 5; Arizona, 2; Louisiana, 5; Missouri, 2; Mississippi, 7; Tennessee, 4; and Texas, 8.

## DISASTER ASSISTANCE

**Question.** Total funding of \$2.232 billion was made available in two emergency supplemental appropriations measures (P.L. 102-229 and P.L. 102-368) for CCC disaster payments for 1990, 1991 and 1992 crop losses. Of the total funding provided, how much has been released and what amount is currently unallocated, assuming that those receiving assistance receive only the initial 50 percent prorated payment?

**Answer.** Of the \$2,232 million provided by the two disaster supplementals, \$2,132 million has been made available for payments on crops losses in 1990, 1991, and 1992. An additional \$100 million is available only upon request by the President. After adjustment for a transfer of about \$11 million to FmHA for migrant labor housing, funds provided for disaster payments totaled \$2,121 million.

To date, payments at the 50.04 percent factor total about \$1,616 million including \$963 million for Phase I, \$97 million for Phase II, and \$556 million for Phase III. An additional \$60 million in payments on Phase III applications already on hand is expected. Current funding for Phases I, II, and III totals \$2,121 million. Thus, a total of about \$445 million would remain for payments at the 50.04 percent factor after processing applications on hand.

**Question.** On April 9, the Secretary announced that disaster assistance would be made available to corn producers with low-quality harvests due to 1992 natural disasters. What is the Department's estimate of the total funding which will be required to make payments to producers with quality losses on 1992 corn crops?

**Answer.** On April 9, we announced that producers could apply for quality losses on the 1992 corn crop. The application period for payments on corn quality losses closes May 7, 1993. ASCS has estimated these additional payments at the 50.04 percent factor could total about \$150 million. Payments of \$150 million on quality losses would reduce the estimate of remaining funds from \$445 million to \$295 million.

**Question.** While the 1990 Farm Bill provides the Secretary of Agriculture the discretionary authority to provide disaster payments for losses associated with quality, it requires the producer to first qualify for quantity-related losses. In making corn producers suffering low-quality harvests eligible for disaster payments, can you please explain how the statutory requirement that such producers first qualify for quantity-related losses is being met?

**Answer.** The farm's actual production or quantity is reduced based on the grade of the commodity. Grade 4 corn production is reduced by twenty percent, grade 5 is reduced by fifty percent, and sample grade is reduced by eighty five percent. There are no adjustments for other grades. If, after the adjustment, the farm has a qualifying loss, it is eligible for disaster assistance.

#### PROPOSED OFF-FARM INCOME MEANS TEST

**Question.** According to the President's budget proposal, \$26 million would be saved in fiscal year 1994 by implementing a \$100,000 off-farm means test. Could you please tell this Committee exactly what is the Administration's definition of "off-farm" income. For example, would the selling of land or equipment be considered as "off-farm" income? What about rental income? What about property inheritance in a given year?

**Answer.** Under the President's budget proposal, any person receiving \$100,000 or more in off-farm adjusted gross income during the calendar year in which benefits are requested would not be eligible for crop support loans or deficiency payments for that marketing year. The exact definition of "off-farm adjusted gross income" has not been finalized. However, for analytical purposes, we have defined it as gross revenue from all sources, minus non-farm business expenses (including the cost basis of assets sold in the calendar year), minus farm income during that calendar year. "Farm income" means revenue received from the sale of agricultural commodities including but not limited to grains, fibers, fruits, vegetables, milk and products, livestock, fish, poultry and forestry products (including forfeitures of loan collateral to the CCC); revenue from the sale of farm assets; and revenue received from the performance of farm services, including custom work, machine hire, contract production, custom feeding and grazing. Farm income also includes all payments received in a calendar year by a person under various Government support programs for commodities, conservation, crop insurance or disaster assistance.

According to this definition, farm income would include the proceeds from the sale of land or equipment, rental income of assets, and the inheritance of property, if each were associated with the farm enterprise.



A number of issues are yet to be resolved regarding the exact definition of off-farm adjusted gross income. However, we would expect these issues to be resolved in the final legislative language and through the rulemaking process.

## ELECTRONIC WAREHOUSE RECEIPTS

Question. What is the status of the electronic warehouse receipt regulations?

Answer. A Proposed Rule was submitted to the Office of Management and Budget (OMB) on February 9, 1993. We are currently working with OMB regarding the clearance of this Proposed Rule.

Question. Have there been objections or questions about the content, intent or scope of proposed regulations by any agency of the government? If so, what objections/questions have been raised and what has been the response of the ASCS or Office of the General Counsel to them?

Answer. OMB recently sent a memorandum to USDA indicating that they could not clear the Proposed Rule at this time. OMB indicated that their general concern with the proposal is that it simply automates the existing system rather than applies information technology to improve the utility of the information to USDA and the industry. OMB also requested more study of the effect of automation in general on the cotton industry and in particular in reducing ASCS and industry costs before ASCS will be in a position to promulgate regulations regarding electronic cotton warehouse receipts. USDA has not yet responded specifically to the OMB comments.

Question. Will completion of the regulatory process allow for a final rule to be issued in time to allow full utilization of electronic receipts for the 1993 crop?

Answer. It is unlikely that the regulatory process will be completed in time to allow full utilization of electronic receipts for the 1993 crop.

Question. ASCS is currently operating pilot programs to determine the viability of an electronic receipt program. Have the pilot programs operated satisfactorily? Based on experience to date, is it the opinion of ASCS that the electronic system can increase efficiency and ultimately reduce ASCS costs, as well as industry costs?

Answer. Yes, based on the pilot program, use of an electronic system can increase efficiency. Presently, ASCS is not aware of any known occurrences of error, fraud, misuse, or complaint about the electronic warehouse receipt pilot programs. Participants of the project have been reported as feeling that electronic warehouse receipts are more efficient than conventional paper receipts.

**Question.** If regulations are not issued in time for full implementation for the 1993 season, is ASCS prepared to expand the pilot program to areas which have requested participation?

**Answer.** No, the Department's Office of the General Counsel has advised ASCS not to expand the pilot program at this time.

#### CCC: REIMBURSEMENT FOR NET REALIZED LOSSES

**Question.** The fiscal year 1994 budget estimates that \$20.9 billion will be needed to reimburse the Commodity Credit Corporation for net realized losses, an increase of \$11.7 billion above the fiscal year 1993 reimbursement to the Corporation. What is the reason for this substantial increase above the fiscal year 1993 reimbursement level?

**Answer.** As you know, appropriations to CCC for its losses not only restore the capital impairment of the Corporation, but also serve to restore encumbered borrowing authority because the entire appropriation for restoration of losses is used to repay a portion of CCC's outstanding Treasury borrowings. These outstanding Treasury borrowings by CCC financed the program losses our budget request now seeks to restore. Given these facts, the FY 1994 CCC appropriation request was determined after carefully considering five factors: our estimate of available CCC borrowing authority at the beginning of FY 1994, projected FY 1994 net expenditures that must be financed by the borrowing authority, the need to maintain a reasonable CCC operating margin, a need to accelerate the reimbursement of prior CCC realized losses, and a one-time need to reimburse Treasury based on a GAO audit report. We determined that a CCC appropriation of \$20.9 billion was needed in FY 1994 in order to meet these objectives. In FY 1994, the available CCC borrowing authority at the beginning of the year is estimated at \$3.8 billion, less than 40 percent of the actual \$10.0 billion CCC borrowing authority available at the beginning of FY 1993. Cumulative unreimbursed realized losses are estimated to increase to \$29.7 billion by the end of FY 1993, and the increased appropriation request will reduce these unreimbursed losses at the end of FY 1994 to about \$22.7 billion. This is the major reason for the increased appropriation request, because without an increased appropriation at some point, the Corporation's unreimbursed losses will grow to unreasonable levels. The \$20.9 billion request includes \$18.0 billion for reimbursement of CCC losses and \$2.9 billion for payment to Treasury due to a retroactive GAO determination regarding the FY 1988 Operating Expenses appropriation to CCC. A full explanation of this additional one-time need for \$2.9 billion is found on page 26-7 of the USDA Explanatory Notes.

## FORM 1099-G

Question. The Commodity Credit Corporation (CCC) is including "marketing loan gains" on Form 1099-G issued to producers. Since producers can elect to report CCC loans as income or bona fide loans for tax purposes, the "marketing loan gains" included on Form 1099-G may or may not need to be reported as additional income. Why did CCC recently begin reporting "marketing loan gains" on Form 1099-G?

Answer. After discussions with the Department of Treasury, it was determined that by not reporting marketing loan gains on the Form 1099-G, we may not be reporting all possible income benefits received by producers. Thus, based on these discussions, CCC began including marketing loan gains on the Form 1099-Gs.

Question. Are there instructions on the 1099-G or in the IRS's instructions accompanying tax returns to provide information to producers about how to properly include "marketing loan gains" on their tax returns?

Answer. We do not presently include any instructions accompanying 1099-Gs informing producers about how to properly include marketing loan gains on their tax returns nor are we aware of any special instructions accompanying tax returns that inform producers on how to include marketing loan gains on their tax returns.

Question. Are USDA and IRS officials working to develop a method to provide the correct information to producers? What are the options being evaluated? When is a final decision expected? When will producers receive the information?

Answer. The tax information we provide to producers is correct. However, we are currently working on a proposal to send to the Internal Revenue Service proposing that CCC send producers a set of special instructions on how to properly include marketing loan gains on their tax returns. We intend to send this proposal to the Internal Revenue Service within the next several weeks.

FOREIGN AGRICULTURAL SERVICE  
QUESTIONS SUBMITTED BY SENATOR BUMPERS

RUSSIAN AID

Question. I understand that under the \$1.6 billion in Russian aid announced recently by the President, the transportation costs of the Food for Progress portion cannot be covered because of a limitation on the use of Commodity Credit Corporation funds for this purpose. I further understand that the Administration has been pursuing other possibilities for covering these transportation costs.

What is the current status of this dilemma? How will the transportation costs be covered?

Answer. We are actively exploring all available authority to use funds through other channels to pay for the transportation costs. We hope to be able to advise you by next month that we have been able to fund them through Administration action.

Question. Please provide a summary of USDA's share of the Russian aid package--what programs will be used and to what extent.

Answer. USDA's portion of the program is \$894 million. That consists of the new \$700 million Food for Progress program the President announced in Vancouver, together with \$194 million in programs to be operated by U.S. private voluntary organizations, and bilateral programs with the Russian federation. The \$194 million was divided about evenly between Food for Progress and section 416(b) authorities.

Question. Also provide information by type and amount showing total Russian aid for 1992 and to date for 1993.

Answer. We can summarize commodity values for programs in fiscal 1992 and program plans for fiscal 1993 fairly quickly. (The information follows:)



PROGRAMMED U.S. FOOD AID, FY 1992  
Commodity Value and Metric Tons  
RUSSIA BY COMMODITY

29-Apr-93

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COUNTRY	COMMODITY	SECTION 416(b)						COUNTRY BY COMMODITY TOTALS	
		Regular 416		World Food Program		CCC Purchases		000 MT	000 \$
		000 MT	000 \$	000 MT	000 \$	000 MT	000 \$		
Russia	Beans	--	--	--	--	5.1	3,057.0	5.1	3,057.0
Russia	Butter	21.0	30,009.0	--	--	--	--	21.0	30,009.0
Russia	Butteroil	4.6	8,510.0	--	--	--	--	4.6	8,510.0
Russia	Evaporated Milk	--	--	--	--	0.7	573.3	0.7	573.3
Russia	Infant Formula	--	--	--	--	1.0	4,500.0	1.0	4,500.0
Russia	NFDM	13.8	23,400.5	--	--	--	--	13.8	23,400.5
Russia	Peas	--	--	--	--	4.5	1,473.9	4.5	1,473.9
Russia	Rice	--	--	--	--	19.4	7,164.1	19.4	7,164.1
Russia	S. F. Bulgur	--	--	--	--	2.7	544.0	2.7	544.0
Russia	Vegetable Oil	--	--	--	--	4.6	3,628.6	4.6	3,628.6
Russia	Wheat Flour	--	--	--	--	25.5	5,355.0	25.5	5,355.0
Total for FY 1992 ...		39.4	61,919.5	--	--	63.5	26,295.9	102.9	88,215.4

PLANNED U.S. FOOD AID, FY 1993  
Commodity Value and Metric Tons  
RUSSIA BY COMMODITY

COUNTRY	COMMODITY	SECTION 416 (b)						COUNTRY BY COMMODITY TOTALS	
		Regular 416		World Food Program		CCC Purchases			
		000 MT	000 \$	000 MT	000 \$	000 MT	000 \$	000 MT	000 \$
Russia	Baby Cereal	--	--	--	--	0.3	952.0	0.3	952.0
Russia	Baby Food	--	--	--	--	5.5	18,608.0	5.5	18,608.0
Russia	Beans, Red	--	--	--	--	0.6	324.5	0.6	324.5
Russia	Butter	36.7	51,436.0	--	--	--	--	36.7	51,436.0
Russia	Butteroil	20.5	35,822.5	--	--	--	--	20.5	35,822.5
Russia	Chicken	--	--	--	--	10.3	7,982.5	10.3	7,982.5
Russia	Corn	210.0	20,160.0	--	--	300.0	28,502.1	510.0	48,662.1
Russia	Feed Wheat	125.0	18,125.0	--	--	--	--	125.0	18,125.0
Russia	Infant Formula	--	--	--	--	1.5	8,090.5	1.5	8,090.5
Russia	Lentils	--	--	--	--	1.6	886.4	1.6	886.4
Russia	NFDM	--	--	--	--	0.7	1,645.6	0.7	1,645.6
Russia	Peanut Butter	--	--	--	--	0.5	1,000.1	0.5	1,000.1
Russia	Peanuts	--	--	--	--	4.3	3,000.0	4.3	3,000.0
Russia	Pork	--	--	--	--	14.6	20,002.0	14.6	20,002.0
Russia	Rice	--	--	--	--	90.7	24,836.0	90.7	24,836.0
Russia	Soybeans	--	--	--	--	2.6	556.4	2.6	556.4
Russia	Vegetable Oil	--	--	--	--	8.2	6,135.0	8.2	6,135.0
Russia	Wheat	--	--	--	--	520.0	78,000.0	520.0	78,000.0
Russia	Wheat Flour	--	--	--	--	3.4	899.0	3.4	899.0
Russia	Whole Dry Milk	--	--	--	--	4.4	13,231.0	4.4	13,231.0
Total for FY 1993 ...		392.2	125,543.5	--	--	969.2	214,651.0	1,361.4	340,194.5

Source: USDA/FAS/EC/PAD:4-29-93

## GSM DEBT

Question. Please provide for the record a list of outstanding GSM debt by country, its status with regard to being current, and the adjustments that have been made to initial guarantee contracts.

Answer. I'll submit details of countries for the record.  
(The information follows:)

## ESTIMATED CCC EXPORT CREDIT GUARANTEES OUTSTANDING

As of March 31, 1993  
(dollars in millions)

Country	Estimated Contingent Liability	Rescheduled Outstanding	Claims Outstanding	ESTIMATED TOTAL OUTSTANDING	STATUS
Algeria	\$1,143.5			\$1,143.5	C
Angola	4.6			4.6	C
Argentina	0.2		0.1	0.3	D
Bangladesh	12.2			12.2	C
Brazil		114.7		114.7	C
Chile	0.9	11.5		12.4	C
Colombia	13.8			13.8	C
Cote d'Ivoire	0.8			0.8	C
Czech Republic	0.0			0.0	
Czechoslovakia	1.3			1.3	C
Dominican Republic		119.4	32.1	151.5	R
Ecuador	49.1			49.1	C
Egypt	27.9	230.9	0.0	258.8	C
El Salvador	11.2	20.2		31.4	C
Ghana	0.3			0.3	C
Guatemala	17.7			17.7	C
Honduras		26.2	2.0	28.2	D, A
Hungary	2.7			2.7	C
Indonesia	23.3			23.3	C
Iraq	77.1		1,593.6	1,670.7	D
Jamaica		50.2		50.2	A
Jordan	136.0	8.8		144.8	A
Kenya	10.5			10.5	C
Korea	381.4			381.4	C
Mexico	2,241.3	268.8		2,510.1	C
Morocco	213.0	151.0		364.0	A
Nigeria			0.1	0.1	D
Pakistan	391.0			391.0	C
Panama	4.3	1.9		6.2	C
Peru		520.1		520.1	C
Philippines		40.6		40.6	A
Poland		1,735.7	0.0	1,735.7	A
Romania	48.3			48.3	C
Russia	817.1			817.1	C
Senegal	12.2			12.2	C
Soviet Union	2,412.0		263.6	2,675.6	R
Sri Lanka	94.2			94.2	C
Sudan		61.2		61.2	A
Suriname	4.4		8.4	12.8	D
Trinidad & Tobago	81.9			81.9	C
Tunisia	107.2			107.2	C
Turkey	50.5			50.5	C
Ukraine	185.9			185.9	C
Venezuela	148.7			148.7	C
Yemen	65.5			65.5	C
Yugoslavia	0.0		3.7	3.7	D
Zimbabwe	20.6			20.6	C
Tanzania (Zanzibar)			4.0	4.0	D
Total	\$8,812.6	\$3,361.3	\$1,907.7	\$14,081.6	

LEGEND: A - Rescheduled payments in arrears.  
C - Current.  
D - Defaulted claims paid, no rescheduling requested.  
R - Rescheduling requested.

Question. What has been the annual CCC exposure or loss for the last three years:

Answer. I'll submit the details of CCC's contingent liability of principal and interest as of fiscal year end for 1990, 1991, and 1992 for the record.

(The information follows:)

CCC Export Credit Guarantees Contingent Liability  
(In Millions of Dollars)

As of	GSM Contingent Liability
September 30, 1990	\$8,891
September 30, 1991	\$8,971
September 30, 1992	\$9,556

Question. For the last three years, what amount of GSM debt, by country, has been forgiven or restructured? For any restructuring, explain the restructure agreement.

Answer. I'll submit the details of the amount of GSM debt, by country that has been forgiven or restructured over the last three years for the record

(The information follows:)

GSM Rescheduled Debt(s) by Fiscal Years  
(In thousands of dollars)

	Fiscal Year 1990		Fiscal Year 1991		Fiscal Year 1992	
Country	Amount Resch.	Amount Forgiven	Amount Resch.	Amount Forgiven	Amount Resch.	Amount Forgiven
Brazil	0	0	0	0	114,116	0
Egypt	0	0	241,600	0	0	0
El Salvador	0	0	20,153	0	0	0
Honduras	0	0	26,847	0	0	0
Jamaica	0	0	14,944	0	14,218	0
Jordan	6,504	0	0	0	0	0
Morocco	0	0	57,479	0	0	0
Panama	318	0	1,426	0	0	0
Philippines	0	0	0	0	11,516	0
Poland	608,055	0	3,105,095	1,328,082	0	0
Zaire	<u>2,078</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	616,955	0	3,467,544	1,328,082	139,850	0

VALUE ADDED EXPORTS

Question. You have been urged through the Market Promotion Program and the FAS cooperator program to put increased emphasis on the export of value added or further processed agricultural products. Have you accomplished this goal? If so, how and how have you measured the increase?



Answer. The predecessor to the Market Promotion Program, called the Targeted Export Assistance Program, began in 1986. The Market Promotion Program was established as the successor to the Targeted Export Assistance Program in 1990. The emphasis in these programs has been on the export of value added or processed agricultural products, and that emphasis has increased over time. On the other hand, the focus of the Foreign Agricultural Service's cooperator program has been on support of exports of bulk commodities (since 1987, essentially constant support at 70 percent of program funding).

In 1986, the Foreign Agricultural Service provided funding of \$110 million to 118 organizations and companies, of which 111 promoted value added or processed agricultural products. At that time, these groups received \$74.3 million, or 67 percent of total program funding. By 1992, the number of groups promoting these products and receiving program funding increased to 541, and they received 79 percent of program funding, or \$158 million. While the level of program funding was reduced in 1993, the percentage of funding used for promoting value added or processed agricultural products increased to 82 percent.

#### COOPERATOR PROGRAM

Question. I am concerned about the more than 17 percent cut to the FAS Foreign Market Development program which reflects a one-third cut (\$10,000,000 reduction) in the cooperator program.

Given that agricultural trade is one of the bright spots in our balance of trade, why are we cutting this program?

Answer. Although motivated by the Administration's plan to reduce government spending, the underlying philosophy behind the \$10 million reduction is to stimulate the private sector to increase its share of the cost of the Cooperator program. The concept, therefore, is not that the program is reduced but rather the private sector will shift a greater portion of their resources into export-related activities.

Question. Cannot the participating Cooperators document how these funds have been successful in establishing and developing markets in order to promote the export of U.S. agricultural products?

Answer. Yes, the Cooperators can document the value of the program. We believe there is a relationship between the program funds and the level of U.S. agricultural exports. One need only compare the markets targeted under the Cooperator program when it began in the 1950's to the current top U.S. export markets as evidence that the program plays an important and supportive role in export expansion.

The program is based on the premise that foreign market development is a long term investment which encourages foreign consumption of U.S. agricultural products through such activities as trade servicing and technical assistance. The program activities are intended to change the consumption patterns favoring U.S. agricultural commodities and products.

Question. Could you provide a breakdown of how these Cooperator funds were allocated in 1992 and 1993?

Answer. I will provide for the record a table which reflects the cooperator funds allocated in 1992 and 1993.  
(The information follows:)

*FY 1992 AND FY 1993 FOREIGN MARKET DEVELOPMENT BUDGETS*

<u>PARTICIPANT</u>	<u>FY 1992 FMD BASE BUDGET</u>	<u>FY 1993 FMD BASE BUDGET</u>
<u>DAIRY, LIVESTOCK AND POULTRY DIVISION</u>		
American Embryo Transfer	\$25,000.00	\$25,000.00
American Sheep Industry Association	\$167,100.00	\$167,100.00
American Quarter Horse Association	\$25,450.00	\$25,450.00
Appaloosa Horse Club	\$0.00	\$9,951.00
Catfish Institute	\$54,818.00	\$0.00
Leather Industries of America	\$175,000.00	\$175,000.00
Livestock Exporters Association	\$18,500.00	\$18,500.00
Mohair Council of America	\$21,000.00	\$21,000.00
National Association of Animal Breeders	\$90,000.00	\$90,000.00
National Association of Swine Records	0.00	\$5150.00
National Dairy Research and Promotion Board	\$400,000.00	\$400,000.00
National Renderers Association	\$1,048,000.00	\$1,048,000.00
USA Poultry and Egg Export Council, Inc.	\$1,720,545.00	\$1,720,545.00
U.S. Beef Breeds Council	\$116,830.00	\$116,830.00
U.S. Dairy Genetics Council	\$525,000.00	\$525,000.00
U.S. Hides, Skin and Leather Association	\$46,000.00	\$46,000.00
U.S. Meat Export Federation	\$1,971,625.00	\$1,971,625.00
-----	-----	-----
COMMODITY DIVISION TOTAL	\$6,404,868.00	\$6,415,151.00
-----	-----	-----
<u>TOBACCO, COTTON AND SEEDS DIVISION</u>		
American Seed Trade Association	\$235,600.00	\$235,600.00
Cotton Council International	\$2,000,000.00	\$2,000,000.00
Tobacco Associates	\$199,000.00	\$199,000.00
-----	-----	-----
COMMODITY DIVISION TOTAL	\$2,434,600.00	\$2,434,600.00
-----	-----	-----
<u>OILSEEDS AND PRODUCTS DIVISION</u>		
American Soybean Association	\$7,413,528.00	\$7,413,528.00
National Cottonseed Products Association	\$180,060.00	\$155,000.00
National Peanut Council	\$479,500.00	\$479,500.00
National Sunflower Association	\$301,150.00	\$301,150.00
-----	-----	-----
COMMODITY DIVISION TOTAL	\$8,374,238.00	\$8,349,178.00
-----	-----	-----
<u>AGEXPORT SERVICES DIVISION</u>		
Eastern U.S. Agricultural and Food Export Council	\$100,000.00	\$100,000.00
Mid-America International Agri-Trade Council	\$100,000.00	\$100,000.00
National Association of State Departments of Agriculture	\$366,272.00	\$204,955.00
Southern U.S. Trade Association	\$100,000.00	\$100,000.00
Western U.S. Agricultural Trade Association	\$140,000.00	\$140,000.00
-----	-----	-----
COMMODITY DIVISION TOTAL	\$806,272.00	\$644,955.00
-----	-----	-----
<u>FOREST PRODUCTS DIVISION</u>		
National Forest Products Association	\$2,840,964.00	\$2,840,964.00
-----	-----	-----
COMMODITY DIVISION TOTAL	\$2,840,964.00	\$2,840,964.00
-----	-----	-----

<u>PARTICIPANT</u>	<u>FY 1992 FMD BASE BUDGET</u>	<u>FY 1993 FMD BASE BUDGET</u>
<u>GRAIN AND FEED DIVISION</u>		
Millers National Federation	\$21,400.00	\$21,400.00
National Dry Bean Council	\$107,610.00	\$107,610.00
National Hay Association	\$67,876.00	\$67,876.00
Protein Grain Products International	\$68,290.00	\$68,290.00
USA Dry Pea and Lentil Council	\$176,700.00	\$176,700.00
USA Rice Council	\$1,921,735.00	\$1,921,735.00
U.S. Feed Grains Council	\$6,442,663.00	\$6,442,663.00
U.S. Wheat Associates	\$7,381,322.00	\$7,381,322.00
-----		
COMMODITY DIVISION TOTAL	\$16,187,596.00	\$16,187,596.00
-----		
<u>HORTICULTURAL AND TROPICAL PRODUCTS DIVISION</u>		
American Horticultural Marketing Council	\$245,000.00	\$245,000.00
California Tree Fruit Agreement	\$0.00	\$445,919.00
Papaya Administrative Committee	\$18,290.00	\$63,360.00
Western Growers Association	\$0.00	\$0.00
-----		
COMMODITY DIVISION TOTAL	\$263,290.00	\$754,279.00
-----		
TOTAL COOPERATOR/PARTICIPANT	\$37,311,828.00	\$37,626,723.00
=====		

Question. Have you looked at any alternative funding reductions such as reducing the number of Americans it assigns to Western Europe?

Answer. Yes, we frequently evaluate our overseas office configuration to adapt to changing market opportunities, international priorities and shrinking budgetary resources. For example, last summer we completed a global review of all our overseas offices that resulted in the closure of three offices and downsizing eight others. Two of offices that will be closed and four of the office to be downsized are in Western Europe with the combined annual savings exceeding \$500,000.

Question. Have you tried to reduce the shared administrative cost that the State Department charges in overseas embassies. Please provide a breakdown of these costs.

Answer. We work to minimize the costs of shared administrative costs on an ongoing basis both at post and here in Washington. At post, FAS officers request only those administrative services that are essential to meeting the agency mission and insure those services are rendered in a satisfactory manner and within the budgeted amount. In Washington, FAS represents USDA on the Foreign Affairs Administrative Support Council which is comprised of other Federal agencies receiving overseas administrative support from the Department of State. A primary responsibility of the Council is the annual review of the shared administrative support budget. Generally, only those changes approved by the Council can be incorporated into the shared administrative support budget. I will provide a breakdown of these costs for the record.  
(The information follows:)

## FOREIGN AFFAIRS ADMINISTRATIVE SUPPORT

POSTS	3,462,427
ATOS	1,962,000
PROGRAM LOCALS	358,573
SUPPLEMENTAL ANNUITY PAYMENTS	1,000
FAMILY LIAISON OFFICE	10,000
RETIREMENT/JOB SEARCH PROGRAM	11,000
SECURITY GUARD PROGRAM	<u>313,000</u>
TOTAL FY 1993 FAAS	6,118,000

Question. What is the total cost for an assigned attache or counselor in a major Western European city, including salary, benefits, housing, education allowances, post differentials, shared administrative costs and any other overhead?

Answer. I will provide that information for the record using our Counselor's office in London as an example.  
(The information follows:)

## LONDON

(Recurring Annual Cost of American Counselor Position)\*

AMERICAN SALARIES	107,000
AMERICAN BENEFITS	21,000
ALLOWANCES:	
POST	5,000
EDUCATIONAL (1 CHILD)	13,000
COUNTRY ASSIGNED TRAVEL	10,000
RESIDENTIAL LEASE	50,500
RESIDENTIAL UTILITIES	5,000
SUPPLIES/EQUIPMENT (Office & Residential)	8,000
MAINTENANCE AND REPAIR	5,000
DEPARTMENT OF STATE ADMINISTRATIVE	
SUPPORT CHARGES	<u>40,000</u>
TOTAL	264,500

\* Excludes non-recurring costs associated with rotation assignments to and from post.

## ENTERPRISE FOR THE AMERICAS INITIATIVE (EAI)

Question. What amount of debt, for what programs, and for what countries, has been or is being proposed under the EAI in 1993?

Answer. In December 1992, the U.S. Government signed EAI agreements with two countries forgiving P.L. 480 debt: El Salvador



for 80 percent, or \$270 million and Uruguay for 40 percent, or \$400,000.

Question. Please provide the same information for 1994.

Answer. For fiscal year 1994, Congress appropriated \$32.6 million for P.L. 480 Title I EAI debt reduction. Congress has delegated to the Treasury Department responsibility for selecting the countries. However, we continue to encourage those countries in Latin America and the Caribbean with P.L. 480 debt which has not yet been accepted under EAI to work toward becoming eligible for debt reduction under the program.

Question. What are the budgetary ramifications of this proposal both in the short and long term?

Answer. The budget authority requested to implement EAI debt reduction is part of the international affairs account for the budget, not the agriculture account. The budget authority request is based on the subsidy cost of the debt reduction or sale, which in turn reflects the net present value (NPV) of foregone receipts over the remaining life of the credit obligations. For fiscal year 1994, a budget allocation of \$32.6 million has been requested for debt reduction of \$63.2 million in existing P.L. 480 Title I debt.

Question. Please provide a summary of EAI activity to date including the country, program under which debt was restructured, the amount of debt involved, and the date of the activity.

Answer. The United States Government has signed five EAI agreements to reduce Title I, P.L. 480 debt. In fiscal year 1991, agreements were signed with Chile for a reduction of 40 percent or \$16 million; Bolivia for a reduction of 80 percent or \$30 million; and Jamaica for a reduction of 80 percent or \$217 million. Congress did not appropriate funding for EAI in fiscal year 1992. Thus far in fiscal year 1993, agreements have been signed with El Salvador for a reduction of 80 percent or \$270 million; and Uruguay for a reduction of 40 percent or \$400,000. Environmental Framework Agreements were signed with Bolivia and Jamaica on November 26, 1991 and with Chile on February 27, 1992.

#### EXPORT ENHANCEMENT PROGRAM (EEP)

Question. What is the current spending under EEP, as of today, for fiscal year 1993?

Answer. EEP bonuses for fiscal year 1993 have reached about \$600 million at this time.

Question. Please provide for the record the type, amount and value of exports under EEP for fiscal year 1992 and so far for fiscal year 1993.

Answer. We will provide that information for the record. (The information follows:)

## Export Enhancement Program

Commodity	Fiscal Year 1992		Fiscal Year 1993 (As of May 4, 1993)	
	Quantity	Sales Value a/	Quantity	Sales Value a/
	(1000 MT)	(Million\$)	(1000 MT)	(Million\$)
Bulk				
Wheat	19,767	2,989	13,395	2,006
Barley <u>b/</u>	1,542	167	826	90
Rice	<u>358</u>	<u>131</u>	<u>186</u>	<u>58</u>
	21,667	3,287	14,407	2,154
Value Added				
Flour	253	59	654	156
Barley Malt	32	9	53	15
Vegetable Oil	457	206	248	121
Frozen Poultry	26	34	4	5
Pork	--	--	--	--
Table Eggs	19	17	16	42
Canned Peaches	<u>2</u>	<u>2</u>	<u>c/</u>	<u>c/</u>
Total Value				
Added	<u>789</u>	<u>327</u>	<u>975</u>	<u>339</u>
Total EEP	22,456	3,614	15,382	2,493

a/ Commodities are valued using average FOB Gulf prices for the week of the sale.

b/ Includes malting barley.

c/ Less than 1000 MT's or one million dollars.

Question. For what percentage of total U.S. agricultural exports would you say EEP is responsible?

Answer. The following table shows EEP sales as a percentage of total exports on a volume basis for fiscal year 1992.

Fiscal Year 1992 EEP Sales as a Percentage  
of Total Exports (Volume)

<u>Commodity</u>	<u>Percentage</u>
Wheat	58
Flour	31
Barley	74
Rice	16
Vegetable oil	30
Frozen broilers	59
Table eggs	46

## MARKET PROMOTION PROGRAM

Question. Please provide the following information for the Market Promotion Program:

1. The participants and amounts received for 1992.

2. The participants and amount allocated for 1993. Please show the total for each participant with separate amounts for generic and branded allocations 1992 carryover, and any allocation to be made on or after September 30, 1993.

Answer. I have provided for the record the 1992 MPP allocations by participant and the 1993 allocation, including the generic and branded breakout and the 1992 carryover by participant. This information is not available for the 1994 year.  
(The information follows:)

## 1992 AND 1993 MARKET PROMOTION PROGRAM BUDGETS

PARTICIPANT	1992 MPP ALLOCATION	1993 MPP ALLOCATION	1993 AUTHORIZED GENERIC BUDGETS	1993 AUTHORIZED BRAND BUDGETS	FY 1992 CARRYOVER
Alaska Seafood Marketing Institute	\$8,520,000.00	\$6,960,000.00	\$4,321,100.00	\$2,930,000.00	\$291,100.00
Almond (EIP)	\$4,140,000.00	\$0.00	\$0.00	\$0.00	\$1,989,740.00
Almond Board of California 1/	\$0.00	\$3,230,000.00	\$120,000.00	\$5,099,740.00	\$0.00
American Horticultural Marketing Council	\$148,000.00	\$0.00	\$0.00	\$0.00	\$0.00
American Indian Trade & Development Council	\$228,000.00	\$75,000.00	\$75,000.00	\$0.00	\$0.00
American Sheep Industry Association	\$260,000.00	\$240,000.00	\$240,000.00	\$0.00	\$0.00
American Soybean Association	\$5,040,000.00	\$3,300,000.00	\$4,542,311.00	\$0.00	\$1,242,311.00
Asparagus USA	\$216,000.00	\$340,000.00	\$340,000.00	\$0.00	\$0.00
Barley Export Association	\$1,070,000.00	\$830,000.00	\$201,000.00	\$629,000.00	\$0.00
California Avocado Commission	\$332,000.00	\$440,000.00	\$560,853.00	\$0.00	\$120,853.00
California Citrus Peach Advisory Board 2/	\$2,350,000.00	\$1,620,000.00	\$1,957,297.00	\$0.00	\$212,297.00
California Kiwifruit Commission	\$659,000.00	\$490,000.00	\$528,809.00	\$0.00	\$38,809.00
California Pistachio Commission	\$1,210,000.00	\$1,310,000.00	\$1,339,543.00	\$0.00	\$29,543.00
California Prune Board	\$7,520,000.00	\$4,950,000.00	\$2,301,000.00	\$3,530,000.00	\$881,000.00
California Raisin Advisory Board	\$8,410,000.00	\$4,130,000.00	\$5,148,000.00	\$1,790,000.00	\$2,808,000.00
California Strawberry Advisory Board	\$936,000.00	\$370,000.00	\$584,885.00	\$0.00	\$214,885.00
California Table Grape Commission	\$2,890,000.00	\$2,550,000.00	\$2,990,441.00	\$0.00	\$440,411.00
California Tomato Board	\$0.00	\$140,000.00	\$140,000.00	\$0.00	\$0.00
California Tree Fruit Agreement	\$1,210,000.00	\$340,000.00	\$506,908.00	\$0.00	\$166,908.00
California Walnut Commission	\$6,710,000.00	\$4,780,000.00	\$4,305,000.00	\$775,000.00	\$300,000.00
Cattish Institute	\$0.00	\$210,000.00	\$210,000.00	\$0.00	\$0.00
CAIAZ Citrus (EIP)	\$9,200,000.00	\$4,730,000.00	\$0.00	\$7,830,000.00	\$3,100,000.00
Cherry Marketing Institute	\$644,000.00	\$380,000.00	\$482,000.00	\$0.00	\$102,000.00
Chocolate Manufacturers Association	\$2,110,000.00	\$2,570,000.00	\$310,000.00	\$2,335,000.00	\$75,000.00
Concord Grapes (EIP)	\$1,020,000.00	\$0.00	\$0.00	\$820,000.00	\$820,000.00
Cotton Council International	\$15,790,000.00	\$10,340,000.00	\$6,448,158.00	\$8,560,000.00	\$4,668,158.00
Cranberries (EIP)	\$784,000.00	\$0.00	\$0.00	\$700,000.00	\$700,000.00
ELUSAFEC	\$1,430,000.00	\$4,200,000.00	\$508,000.00	\$3,724,607.00	\$32,607.00
Florida Department of Citrus	\$8,670,000.00	\$7,170,000.00	\$6,771,000.00	\$935,000.00	\$536,000.00
Ginseng Board of Wisconsin	\$356,000.00	\$310,000.00	\$310,000.00	\$0.00	\$0.00
Hop Growers of America	\$199,000.00	\$170,000.00	\$241,525.00	\$0.00	\$71,525.00
International Apple Institute	\$0.00	\$910,000.00	\$910,000.00	\$0.00	\$0.00
Kentucky Distillers Association	\$3,790,000.00	\$3,470,000.00	\$200,000.00	\$3,508,578.00	\$288,578.00
MIATCO	\$4,250,000.00	\$4,420,000.00	\$1,000,000.00	\$5,726,000.00	\$2,635,799.00
Michigan Apple Committee	\$208,000.00	\$0.00	\$0.00	\$0.00	\$0.00
Mohar Council of America	\$0.00	\$110,000.00	\$110,000.00	\$0.00	\$0.00
NASDA	\$536,000.00	\$380,000.00	\$380,000.00	\$0.00	\$0.00
National Association of Animal Breeders	\$394,000.00	\$280,000.00	\$216,000.00	\$137,000.00	\$73,000.00



National Dairy Promotion & Research Board	\$0.00	\$280,000.00	\$0.00	\$0.00	\$0.00
National Dry Bean Council	\$310,000.00	\$1,060,000.00	\$0.00	\$0.00	\$0.00
National Forest Products Association	\$14,680,000.00	\$0.00	\$14,730,703.00	\$0.00	\$16,585,703.00
National Honey Board	\$81,000.00	\$200,000.00	\$155,350.00	\$102,000.00	\$57,350.00
National Peanut Council	\$1,100,000.00	\$2,680,000.00	\$1,719,305.00	\$1,485,000.00	\$524,305.00
National Potato Promotion Board	\$5,600,000.00	\$2,670,000.00	\$2,764,067.00	\$460,000.00	\$554,067.00
National Renderers Association	\$0.00	\$180,000.00	\$180,000.00	\$0.00	\$0.00
National Sunflower Association	\$879,000.00	\$1,620,000.00	\$1,778,396.00	\$0.00	\$158,396.00
New York Wine and Grape Foundation	\$0.00	\$110,000.00	\$70,000.00	\$40,000.00	\$0.00
North American Export Grain Association	\$380,000.00	\$400,000.00	\$400,000.00	\$0.00	\$0.00
Northwest Cherry Growers	\$1,040,000.00	\$520,000.00	\$686,382.00	\$0.00	\$166,382.00
Northwest Wine Promotion Coalition	\$0.00	\$340,000.00	\$340,000.00	\$0.00	\$0.00
Oregon Seed Council	\$187,000.00	\$85,000.00	\$152,000.00	\$0.00	\$67,000.00
Oregon-Washington-California Pear Bureau	\$3,020,000.00	\$2,100,000.00	\$2,100,000.00	\$0.00	\$0.00
Pacific Coast Canned Pear Service	\$129,000.00	\$0.00	\$0.00	\$0.00	\$125,000.00
Pet Food Institute	\$0.00	\$830,000.00	\$830,000.00	\$0.00	\$0.00
Popcorn Institute	\$197,000.00	\$500,000.00	\$500,000.00	\$0.00	\$0.00
Processed Tomatoes (EIP)	\$606,000.00	\$210,000.00	\$0.00	\$543,413.00	\$333,413.00
Southeastern Fisheries Association	\$205,000.00	\$140,000.00	\$141,000.00	\$0.00	\$1,000.00
SUSTA	\$1,540,000.00	\$4,940,000.00	\$715,000.00	\$5,339,900.00	\$1,114,900.00
Sweet Corn (EIP)	\$2,790,000.00	\$1,620,000.00	\$0.00	\$1,766,900.00	\$146,900.00
Tobacco Associates	\$3,490,000.00	\$0.00	\$2,490,000.00	\$0.00	\$2,490,000.00
USA Dry Pea and Lentil Council	\$1,160,000.00	\$420,000.00	\$720,000.00	\$100,000.00	\$400,000.00
USA Poultry and Egg Export Council	\$7,010,000.00	\$7,100,000.00	\$3,157,000.00	\$3,943,000.00	\$0.00
USA Rice Council	\$5,330,000.00	\$4,860,000.00	\$3,793,950.00	\$2,045,500.00	\$979,450.00
U.S. Dairy Genetics Council	\$0.00	\$150,000.00	\$150,000.00	\$0.00	\$0.00
U.S. Feed Grains Council	\$4,780,000.00	\$1,120,000.00	\$4,269,141.00	\$0.00	\$3,149,141.00
U.S. Meat Export Federation	\$12,950,000.00	\$10,370,000.00	\$12,410,000.00	\$1,260,000.00	\$3,300,000.00
U.S. Milk Export Development Council	\$2,300,000.00	\$1,100,000.00	\$135,000.00	\$1,624,500.00	\$659,500.00
U.S. Sorghum Commission	\$0.00	\$110,000.00	\$110,000.00	\$0.00	\$0.00
U.S. Wheat Associates	\$4,350,000.00	\$3,010,000.00	\$3,810,000.00	\$0.00	\$800,000.00
Vodka Producers of America	\$0.00	\$260,000.00	\$40,000.00	\$220,000.00	\$0.00
Washington State Apple Commission	\$4,410,000.00	\$3,910,000.00	\$4,160,000.00	\$0.00	\$250,000.00
Wild Blueberry Association of North America	\$26,000.00	\$44,000.00	\$44,000.00	\$0.00	\$0.00
Wine Institute	\$14,310,000.00	\$11,680,000.00	\$5,247,240.00	\$9,612,760.00	\$3,180,000.00
WUSATA	\$4,710,000.00	\$6,370,000.00	\$2,335,000.00	\$5,338,000.00	\$1,303,000.00
EVALUATION	\$1,000,000.00	\$1,000,000.00	\$0.00	\$0.00	\$0.00
TOTALS	\$200,000,000.00	\$147,734,000.00	\$119,772,364.00	\$82,910,898.00	\$58,184,031.00

1/ Program ceiling includes carryover funds from Almond/EIP.

2/ Program ceiling includes carryover funds from Pacific Coast Canned Pear Service.

NOTE: AUTHORIZED GENERIC AND BRANDED CEILINGS AS OF FEBRUARY 9, 1993 AS STATED IN FY 1993 ALLOCATION APPROVAL LETTERS

## CARICOM DUTY ON RICE

Question. I understand the Jamaican rice market has been virtually cut off because of the CARICOM duty on rice.

What is the current status of this problem?

Answer. The CARICOM countries began implementing a common external tariff (CET) for all products in February 1991. The rate varies from 5-45 percent. At that time, Jamaica, Antigua and Barbuda, and Dominica received a one year suspension from applying the 30 percent common external tariff for rice. In February 1992, the suspension lapsed and they began applying the 30 percent rate for white rice, semi-milled white rice, wholly milled white rice, wholly milled parboiled rice, and broken rice. The CARICOM countries apply a 15 percent common external tariff to rice in the husk, parboiled rice, and semi-milled parboiled rice, which are types of rice not traded within the CARICOM countries. After the suspension lapsed, Jamaica decided to continue to apply a 15 percent tariff to the remaining 1992 P.L. 480 Title I rice imports.

Question. Are there ongoing discussion?

Answer. In October 1992, CARICOM restructured the tariff schedule. It took effect in Jamaica on April 1, 1993, the start of the Jamaican fiscal year. Under the restructured CET, the rate for rice was kept at 30%, but will be reduced to 25% on January 1, 1994. The CARICOM Secretariat is also mandated to review the rate treatment in October 1993.

Question. If so, with whom and what are the results?

Answer. USDA and the U.S. Trade Representative have been in continuous contact with our embassies located in the CARICOM nations, expressing our dissatisfaction with the increased common external tariff rate. In addition, we have continued to raise this issue at the annual Trade and Investment Council meetings. Although the GOJ understands U.S. opposition to the high CET, it must act jointly with its regional trading members and not unilaterally.

Question. Will the U.S. retaliate in any way?

Answer. It is doubtful that the U.S. will retaliate on the high tariff for commercial rice. Although we strongly oppose the high common external tariff rate for rice, the CARICOM countries have not violated their GATT obligations. As far as concessional rice, the U.S. is considering whether or not to include rice in future P.L. 480 Title I agreements if it can not enter duty free.

Question. How much of our rice export market is at risk as a result of this duty?

Answer. Total U.S. rice exports in 1992 were 2,350,000 metric tons. The Caribbean consisted of roughly 9.4 percent of total U.S. rice exports in 1992, with exports totaling 220,000 metric tons. U.S. rice exports to the Caribbean were 268,000 metric tons in 1991 and 295,000 metric ton in 1990.

## QUESTIONS SUBMITTED BY SENATOR JOHNSTON

## WORLD RICE SITUATION AND OUTLOOK

Question. As I am sure you are aware, rice prices are at their lowest point in nearly six years. The development of foreign markets and movement of U.S. rice stocks is critical for price stabilization and maintenance of the U.S. rice industry.

Is the considerable drop in the world market price indicative of a rice surplus in the far East? In particular, what is the competitive outlook with respect to Thailand and Vietnam?

Answer. The steady decline in world rice prices over the past 10 months is indicative of the record level exportable supplies of rice in Southeast Asia's rice exporting countries. Also, no unusually large production shortfall or other demand boosting circumstance has developed in any major rice importing country so far in 1993. Without any major import destination emerging to support prices, competition for traditional markets has intensified. Fierce competition between Thailand and Vietnam is expected to continue throughout the remainder of 1993.

Question. How much rice does USDA estimate emerging markets such as Russia will import this year? Are there currently adequate stocks of U.S. rice to meet such demands?

Answer. Russia and the other Republics of the former Soviet Union (FSU) are expected to import 825,000 tons of rice in calendar year 1993, up 25,000 tons from 1992. The FSU imported 67,000 tons of U.S. rice in 1992 and will import 87,000 tons of U.S. rice in 1993 through the Food for Progress program. Additional commercial purchases in 1993 will depend upon availability of credit assistance from the United States, Thailand, and other competitors. In 1993, U.S. rice stocks are expected to reach 1.2 million tons, the highest stock level since 1988 and 400,000 tons higher than 1991. Clearly, the United States has adequate rice supplies to pursue the emerging markets of the former Soviet Union.

Question. Is the U.S. currently providing rice as food aid to Russia? If so, what is the quantity being provided and what percentage of total import needs is the quantity being provided? Also, is there a time table for such purchases?

Answer. Yes, so far the Department of Agriculture has agreed to provide about 90,000 metric tons of rice under various bilateral and private voluntary organization programs. Following the Vancouver summit we also expect to conclude a new bilateral agreement which will provide long term credit financing for an additional quantity of rice, but the final quantity is yet to be determined. Depending on that quantity the U.S. contribution to import needs could be close to 20 percent of the total. As to a time table, we hope to have purchased 57,000 metric tons by mid-May, with other quantities remaining under agreements to be scheduled shortly thereafter.

Question. During the recent Vancouver summit, President Clinton announced an additional \$894 million in "long term credits" and direct food aid would be made available to Russia. Does the USDA consider any portion of this package to be concessional food aid?

Answer. It is all concessional aid, in that it will all either be donated, or sold on concessional credit terms which include below-market interest rates.

Question. Have representatives from the U.S. and from Russia been appointed to conduct negotiations on the commodity mix for the \$894 million allocation announced at the Vancouver summit? If so, who is representing the United States?

Answer. U.S. and Russian teams have been established to negotiate the question of commodity mix under the Vancouver summit announcement. The U.S. side is being led by Christopher Goldthwait, the Foreign Agricultural Service's Acting General Sales Manager.

Question. What is the position of the Administration with respect to the Japanese ban on U.S. rice imports?

Answer. The issue of Japan's rice imports is a central focus of our efforts to conclude the Uruguay Round agriculture negotiations. We have made it abundantly clear to Japan that we view their rice program to be indefensible under the GATT. As the negotiations did not conclude as scheduled, U.S. officials have warned Japan that if import access for rice in Japan is not achieved in the Uruguay Round, then the U.S. rice industry can be expected to initiate another Section 301 complaint.

We believe that Japan has developed the political consensus to allow imports of rice. Although the agricultural sector is predictably opposed to rice imports, many top officials, including the Prime Minister and the Foreign Minister, have indicated that Japan would not stand in the way of an agricultural agreement if other parties (i.e., the EC and the United States) come to a consensus. Polls of the Japanese public and organized efforts by prominent figures also indicate that Japan will not allow the Uruguay Round to fail over this issue. While a general consensus on disciplines for export subsidies and internal support has been reached in the Uruguay Round, there are still serious deficiencies in the market access portion. It is now time for Japan to show the political leadership to make a solid offer on rice and to move the negotiations to a conclusion.

Under the minimum access requirement of the Uruguay Round's Draft Final Act, we expect Japan to import at least 300,000 - 500,000 metric tons of rice per year initially. Also, decreasing tariffs in future years provide opportunities for additional sales. We will have to compete with other rice exporting nations in this market, but some varieties of American rice, particularly medium and short grain rice, are expected to sell very well in Japan.



## QUESTIONS SUBMITTED BY SENATOR KOHL

### MARKET PROMOTION PROGRAM

Question. The Market Program Program has come under a lot of criticism in recent years for not having clear goals and for needing greater management controls.

As Congress looks at ways to reform agricultural export promotion programs, to address these criticisms and to find the most cost-effective ways to expand international markets, I believe that we should be looking more closely at opportunities to achieve these international goals, while investing tax dollars in the U.S. economy.

For example, for the past 25 years, Dane County, Wisconsin has hosted the World Dairy Expo, the world's largest international trade show. Last year, 2,800 foreign visitors from 75 countries attended the World Dairy Expo. A recent survey of companies exhibiting their products at the Expo indicated that the annual value of new business generated at World Dairy Expo was approximately \$25 million. As a result of the Expo, one firm secured a contract worth \$1.5 million annually to market wood shavings to Japan. Another established a Korean market worth \$250,000 annually, and a third reported a new international sales of \$750,000. There are many other international marketing success stories resulting from the World Dairy Expo, as well.

I believe that this is just one example of domestic activities which reap impressive benefits in international markets, and that there are many other examples like in other states.

Given the great potential for increasing international trade opportunities through domestic projects, I would like to know if USDA has the authority to commit funds, through the Market Promotion Program or any other existing USDA program, toward domestic trade promotion projects.

What changes in current law, if any, would be required to give USDA that authority?

Answer. For both the Market Promotion Program and the Cooperator program, the Department currently has the authority to incur costs in the United States if it is for the purpose of encouraging the development, maintenance, and expansion of commercial export markets for agricultural commodities. We agree that there are domestic activities which provide benefits to the international marketing efforts.

As a rule, most of the MPP funds are expended in foreign markets. However, there are activities conducted in the United States for the purpose of foreign market development similar to the World Dairy Expo in Wisconsin. Such international trade shows and educational seminars are eligible expenses providing the activity is 1) export-oriented and 2) described and approved in an activity plan.

## QUESTIONS SUBMITTED BY SENATOR COCHRAN

### MARKET PROMOTION PROGRAM

Question. The prepared testimony indicates that despite increases in U.S. agricultural exports, U.S. agriculture continues to face protectionist trade barriers, unfair trade practices, and self-sufficiency policies around the world. Given this, I would think that the Department would give high priority to its export promotion, market development and food assistance programs. The FY 1994 budget proposes a \$52 million reduction in the authorized spending level for the Market Promotion Program, a \$10 million reduction in the Foreign Market Development Cooperator Program, a reduction in funding for the Export Enhancement Program (-\$200 million), and maintenance of current levels for other export credit guarantee and subsidy programs.

I am curious why deficit reduction initiatives are proposed in this area. Won't these proposed reductions have an impact on the U.S. agricultural export effort? If not, why?

Answer. The Department continues to place a high priority on U.S. agricultural export programs, however, these programs are not immune to the Administration's commitment to better target and reduce government spending. As a result, programs such as the Cooperator and Market Promotion Programs have been earmarked for reduced spending authority.

With the reduction in the discretionary market development funds, FAS will reduce the financial support for participating Cooperator organizations in established markets. Program resources will be focused on expansion into areas of the world where market development prospects for U.S. agricultural commodities and products are most promising. Funding also will be targeted to compensate for actual market and promotion related activities rather than overhead expenses.

The use of MPP funds should result in as great an increase in U.S. exports as a consequence of that expenditure as possible. FAS is committed to getting the greatest bang-for-buck with the funds available. Therefore, MPP funds will be targeted toward those firms and organizations that would otherwise be unable or less likely to promote and successfully export their products overseas. FAS will seek the most "additionality" for MPP expenditures; i.e. an increase in exports as a result of the MPP. The criteria for allocating MPP funds will reflect this goal. To compensate for the reduction in funding, FAS will consider seeking higher cost-share amounts from participants, up from the current minimum level of 5%.

Question. The budget justification indicates that to achieve the proposed \$10 million savings in the Cooperator Program, the government's cost-share will be reduced from 50 to 33 percent and the program will be targeted to participant expansion in less developed areas of the world where the greatest market development potential exists.

A. Will the government's cost-share be reduced from 50 to 33% for all participants or only to those in established markets?

B. The budget proposes to target this program on less developed areas of the world with the greatest market development potential. Which markets will be targeted?

Answer. Based on the Senator's statement, it appears that some clarification is needed concerning the \$10 million Cooperator program reduction and its operation. I would like to take this opportunity to address a few points.

Although motivated in part by the Administration's plan to reduce government spending, the underlying philosophy behind the \$10 million reduction is to stimulate the private sector to increase its share of the Cooperator Program, shifting a greater portion of their resources into export-related activities. However, at this time, we have not established the specific program elements of a reduced cooperator program, addressing such issues as cost-share requirements and program priorities under a reduced government contribution.

Under the current operation of the Cooperator Program, cost-share is defined as a combination of the following resources: cooperator (nonprofit organization), related U.S. industry and foreign third party contributions. The program requires that the cooperator "endeavor" to match the government share of the program. The cooperator match is the total of cooperator, U.S. industry and foreign third party contributions. The Department is on record to increase the private sector's share of the program while decreasing the government's share, but we have not stated it specifically in terms of a cost-share amount of 50 to 33 percent.

With the reduction of the cooperator program funding by one-third, the Department recognizes that the current program must be re-designed. We are in the process of evaluating options that would be formalized when the cooperation marketing plans for FY 1994 are reviewed and approved.

#### LONG-TERM BUDGET SAVINGS

Question. The fiscal year 1994 budget proposes a \$50 million reduction in P.L. 480 Title III grants and a \$6 million reduction for debt reduction and restructuring under the Enterprise for the Americas Initiative.

Would you please explain more fully the changes being proposed in each of these programs to achieve long-term budget savings.

Answer. The President's Budget proposes a \$50 million reduction in P.L. 480 Title III program level for 1994. In terms of outlays the Budget proposes a \$30 million discretionary savings from the baseline in 1994 and a \$246 million discretionary savings during the 1994 through 1997 period by maintaining the program at the same level through 1998.

The President's Budget also proposes a \$6 million discretionary savings from the baseline in 1994 and a \$79 million discretionary savings during the 1994 through 1997 period by reducing the amount available to meet the cost of reducing and

restructuring P.L. 480 Title I debt under the Enterprise for the Americas Initiative.

#### U.S. EXPORTS

**Question.** The Foreign Agricultural Service has played a key role in helping U.S. producers market their products overseas. Where have we been most successful in increasing market access for U.S. farm products and which countries represent our greatest potential for market access and development?

**Answer.** During the past several years, FAS has kept markets open and further expanded access to overseas markets primarily through bilateral trade negotiations. The successful implementation of the U.S.-Canada Free Trade Agreement is a clear case in point where existing barriers are being progressively reduced and U.S. exports are on the rise. In addition to Canada, most of our recent success has occurred in East Asia. These heavily protected markets are now opening in response to trade negotiations spearheaded mainly by the United States. With trade barriers lowered, FAS market development programs (such as the MPP) are being successfully used to boost the sales of U.S. products in previously restricted markets.

U.S. exports to Japan rose over 60 percent since 1986. These tangible sales gains are now benefiting a large portion of the U.S. agricultural community. The U.S.-Japan Beef and Citrus Agreement of 1988 progressively eliminated Japanese quotas on beef, fresh oranges, and orange juice. As market access improved and large MPP funding got under way, U.S. beef exports rose from \$558 million in 1987 to \$1.1 billion in 1992. Fresh orange and juice sales have also grown rapidly reaching over \$100 million in 1992.

In addition to Japan, the "Four Tigers of Asia" and the ASEAN countries offer considerable opportunities for increased sales. Since 1986, U.S. exports to South Korea and Taiwan are up 60 to 70 percent, while shipments to the other countries are up over 100 percent. Trade negotiations aimed at expanding market access are expected to remain arduous. Nonetheless, successes are evident. An example is the U.S.-Korean Beef Agreement of 1990 which created new export opportunities for the U.S. beef industry. During the past two years, annual sales have nearly doubled reaching just over \$200 million.

Closer to home, sales to Mexico during the past few years have shown dramatic gains. In response to Mexico's trade and economic liberalization efforts, sales of U.S. high-value products have surged to record highs. In fact, Mexico is our third largest market. The North American Free Trade Agreement (NAFTA) would further expand these gains across the entire spectrum of agricultural products. The NAFTA is fully implemented, USDA estimates it will result in annual sales gains of \$1.5 billion to \$2 billion. On a global scale, a successfully completed Uruguay Round still clearly holds the most promise for greater market access and increased sales. USDA estimates annual sales gains from a successful outcome could reach as high as \$5 billion to \$7 billion.



## TRAINING FOR EMERGING DEMOCRACIES

Question. The fiscal year 1994 request proposes to continue the current appropriations level to provide training for middle income countries and emerging democracies.

In fiscal year 1992, this program received additional funding from U.S. Department of Agriculture's Emerging Democracies Program to implement training in 12 new independent states of the former Soviet Union. Do you expect additional fiscal year 1994 funding to be provided under the Emerging Democracies Program for this purpose?

Answer. Yes, we anticipate that training for middle income countries and emerging democracies will be funded through the Cochran Fellowship program as well as the Emerging Democracies Program. At this time, we have not determined how much additional funding for training will come from the Emerging Democracies Program. I will provide additional information on these programs for the record.

(The information follows:)

The Emerging Democracies technical assistance program, under Section 1542 of the Food, Agriculture and Conservation Trade Act of 1990, provides \$10 million per year for technical assistance in Emerging Democracies. This program has focused on imparting American management techniques and adaptation to a market economy, with areas of focus ranging from livestock breeding, to fruit and vegetable marketing, to commodity trading and logistics, to marketing of grocery products. Training is a common element of all of these programs. The Office of International Cooperation and Development personnel implementing the Cochran Fellowship program have experience and procedures in interviewing and arranging public and private sector programs for individuals needing training in a wide variety of areas such as agribusiness management and agricultural policies to encourage private agribusiness. The trainees have been identified by our technical experts and overseas attaches for programs designed and proposed by the Foreign Agricultural Service. Cochran Fellowship Program personnel were provided funding to extend to the Emerging Democracies Program the skills they had developed for the general Cochran Fellowship Program. This seemed to be the cheapest, fastest and most effective way to provide support for U.S. Department of Agriculture technical assistance efforts.

FAS provided a total of \$3.2 million to the Office for International Cooperation and Development for Emerging Democracies training during Fiscal Year 1992 and Fiscal Year 1993. Two projects - one in Bulgaria to support technical assistance in the fruit and vegetable sector (\$250,000) and the other for grain trader training (\$500,000) in the former Soviet Union provided a series of group training programs, with the activities planned by the Foreign Agricultural Service, in cooperation with industry contacts. This approach is unlike the normal Cochran Fellowship Program where the training, which is always within a broad framework of U.S. agricultural objectives is typically tailored to the interests expressed by the trainee, based on the interview. In fact, most of the training funded by the Emerging Democracies

program was in support of more intensive U.S. Department of Agriculture technical assistance activities targeted to development of segments of the marketing systems. Given that costs for each trainee tends to be roughly \$10,000, only a handful of people can be selected from each country.

Not counting activities under the Cochran Fellowship Program, which is being extended to 11 of the 12 former Soviet Union countries this year, the Emerging Democracies program now is undertaking technical assistance programs in Russia, Kazakhstan, Ukraine, Lithuania, Latvia, Estonia, Poland, Bulgaria, Czech Republic, Slovakia, Hungary, Nicaragua, El Salvador, and Argentina. These activities and follow-up on initial activities will stretch the \$10 million budget very tightly even if no new countries are added.

Question. Do you plan to expand this training program to any other countries during fiscal year 1994?

Answer. At present, there are no plans to provide fiscal year 1994 Emerging Democracies money for training outside of Eastern Europe or the former Soviet Union.

#### COMMODITY CREDIT CORPORATION

Question. The USDA budget summary indicates that the fiscal year 1994 request provides for the costs which will result in fiscal years 1993 and 1994 once an agreement to reschedule former Soviet Union and Russian debt owed to the CCC is implemented. What are the costs assumed and where are they reflected in the President's fiscal year 1994 budget?

Answer. On April 2, 1993, the Government of the Russian Federation signed an agreement with creditors of the former Soviet Union to reschedule the former Soviet Union debt due and unpaid as of December 31, 1992. No Russian debt is included in this agreement. The costs assumed in the President's fiscal year 1994 budget are included in the CCC Export Credit Guarantee Loan Program Account and the CCC Export Credit Guarantee Loan Liquidating Account, and are displayed by fund in the Budget Appendix on pages 382-384. Estimated costs for the former Soviet Union rescheduling were incorporated within the Program Account in the technical reestimate for cohort/program year 1992, and the additional subsidy amount of \$363.894 million will be made available in fiscal year 1993 for disbursement in fiscal years 1993 and 1994 according to the Federal Credit Reform Act of 1990. The Liquidating fund costs will be disbursed in fiscal years 1993 and 1994 using permanent indefinite authority available according to the Federal Credit Reform Act of 1990.

#### U.S. MEAT

Question. It is my understanding that Russia is currently importing U.S. meat. However, there is some question as to whether the U.S. will be able to continue to ship meat to Russia. Could you please give this Committee an update on this situation both in the short and long-term?

Answer. The recent difficulties involving exports of U.S. meat to Russia were largely resolved at meetings with Russian authorities in Moscow in April 1993. The remaining issues involving pork, will be addressed when the Russian officials review U.S. pork production, disease and residue control, and meat inspection systems in May 1993. If the Russian authorities agree that the U.S. systems yield safe and wholesome products, the import ban on U.S. pork now scheduled for June 1, 1993 may not take effect.

#### GATT

Question. Taiwan has applied to GATT for membership. Since current GATT rules and regulations do not provide for a ban on imports and realizing Taiwan maintains a ban on rice imports, what is USDA doing to solicit concessions on this policy?

Answer. In the context of its accession to the General Agreement, Taiwan must commit to bring all its trade practices into conformity with GATT provisions. This includes elimination of all import prohibitions not specifically provided for in GATT articles (e.g., Articles XX and XXI), including the import ban on rice.

The United States delegation and other Contracting Parties to the April 15 and 16 Working Party meeting reviewing Taiwan's GATT application made it clear to Taiwan that GATT inconsistent measures could not remain in place after Taiwan accedes to the GATT. We expect Taiwan to fully comply with the requirements of all developed economies acceding to the GATT.

#### U.S. RICE TO THE EC

Question. The EC has been one of the largest and most stable cash markets for U.S. rice. However, U.S. exports to the EC have dropped from 451,000 tons in 1989 to 318,000 tons in 1990 to 271,000 tons in 1991 and to about 240,000 tons in 1992. I understand the EC has reversed a commitment to the U.S. and extended a production subsidy program beyond its initial life.

Are you aware of this and the impact it has along with other provisions of the EC's common Agricultural Policy on the U.S. rice industry?

Answer. The EC Commission's proposal to extend the production subsidy for long-grain rice was announced in February as part of the EC's annual price package. The subsidy was to be for half of the previous amount. The price package (including the subsidy) has not yet been approved. It is scheduled to be discussed in the EC Agriculture Council on May 24.

Question. What is the USDA doing to help the U.S. rice industry combat the EC's unfair trade policy?

Answer. In February, USDA representatives immediately protested vigorously to officials in Brussels as well as in the Member States, citing the numerous assurances we and the U.S. rice industry had received that this 5-year subsidy would end last year.

In response, Director-General Guy Legras committed in writing that the extension of the subsidy would be for one year only. We have continued to protest this subsidy at high levels when the opportunity has arisen.

Question. What prospects do you see for the U.S. rice industry to regain its former share of the EC rice market? Can a successful Uruguay Round agreement help? What provisions or conditions must be included in the Uruguay Round agreement to help the U.S. rice industry regain its former share of the EC rice market?

Answer. The United States believes it is critical that existing trading opportunities in Europe and elsewhere not be diminished as a result of the Uruguay Round. Our position with respect to the EC rice imports, consistent with our general position on current access in the Uruguay Round, is that quantifiable commitments should be made which ensure existing trading opportunities.

#### U.S. RICE EXPORTS

Question. A number of the Caribbean nations have entered into a common market agreement generally referred to as CARICOM. Under that agreement, a common external tariff has been imposed on imports of rice from the United States at 30 percent ad valorem and, additionally, Jamaica imposes a 15 percent ad valorem tariff on imports of rice under the P.L. 480 food assistance program. Implementation of these tariffs subject the U.S. rice industry to the very real possibility of completely losing roughly a 120,000 ton market in these Caribbean countries.

What is your assessment of the impact of these tariffs on U.S. rice exports to the CARICOM countries?

Answer. Guyana has been able to capture a significant portion of the market once supplied primarily by the United States. Guyanese rice is cost competitive as long as exports from outside the CARICOM region are assessed a 30 percent CET rate. It appears that Guyana was not cost competitive when the market operated under normal conditions and the duty rate on rice from outside the CARICOM region was 15 percent.

Question. What is the potential for CARICOM members to supply, now or in the future, the requirements of the CARICOM market? Are they doing so today?

Answer. Guyana is the only CARICOM country that has the potential for exporting rice. It is estimated that Guyana has the potential to meet over 75 percent of the region's demand/consumption.

Question. What are the CARICOM requirements regarding internal supply and application of the tariffs? Are CARICOM members meeting these requirements currently? If CARICOM members are not satisfying the supply requirements of their rice markets, what action can and will USDA take to help the U.S. rice industry maintain these important markets?



Answer. The CET assesses duties on trade of commodities originating outside of the CARICOM Common Market. The level of duty assessed is dependent upon the classification of the commodity. Commodities are first defined as being either "competing" or "noncompeting." A competing commodity is one where "regional production or immediate production potential from existing capacity amounts to over 75% of regional demand/consumption." The second classification divides commodities into "inputs" and "final goods." In general, competing goods and final goods attract a higher duty rate than inputs and noncompeting goods. Rice is classified as a competing commodity due to Guyana's alleged potential to meet over 75% of the region's demand/consumption.

The CET provides for Conditional Duty Exemptions on a number of items. These include items imported on a concessional basis to assist economic development. The Government of Jamaica (GOJ) may grant such imports total or partial duty exemption. As a result of the increase in tariff to 30%, USDA suspended rice exports under the fiscal year 1992 Title I program. In response, the GOJ opted to have the duty on PL 480 rice remain at its previous level of 15%. At present, the duty on commercial rice imports is 30%, but will be reduced to 25% on January 1, 1994. The CARICOM Secretariat is also mandated to review the rate treatment in October 1993.

Question. Is it U.S. policy to allow a country to impose import tariffs on PL 480 food shipments? What are the advantages and disadvantages of allowing a country to impose tariffs on PL 480 food shipments, both from the US Government's perspective and the recipient government's perspective?

Answer. The U.S. Government believes that countries should not charge duties on PL 480 food shipments. The imposition of tariffs on PL 480 commodities only recently became an issue in February 1992 after the CARICOM Common External Tariff (CET) was applied to Jamaica's Title I rice imports, raising the duty from 15 to 30 percent. However, the USDA allowed Jamaica to charge only a 15 percent duty on rice, a move supported at that time by the rice industry. We will change that policy next year (fiscal 1994) and require all Title I imports to be duty-free.

Question. Why is Jamaica imposing a tariff on PL 480 shipments of US rice? Is the imposition of this tariff affecting US competitiveness in the Jamaican rice market? If this tariff is adversely affecting US rice exports to Jamaica, what can and will USDA do to get Jamaica to change its policy?

Answer. CARICOM governments imposed the CET in order to protect the CARICOM rice market from extra-regional suppliers and to provide an incentive for regional rice production. Since 1990, Guyanese rice production has increased substantially, from 120,000 metric tons (MT) to an anticipated 170,000 MT this year. Jamaica purchased its entire PL 480 rice allocation of \$11.0 million (44,000 MT) in fiscal 1991, and \$10.0 million (34,600 MT) in fiscal 1992. On December 2, 1992, Jamaica purchased \$3.8 million (17,000 MT) of its \$18.0 million fiscal 1993 Title I allocation for rice. We have told the Government of Jamaica that we expect them to

purchase their total rice allocation under the fiscal 1993 Title I agreement.

#### RUSSIA

Question. Russia and other former Soviet Union republics are significant rice markets. Because domestic production does not usually satisfy demand, rice is imported. As income increases, it is estimated that rice consumption will increase. Some estimates suggest that Russia alone could import as much as two million tons instead of current imports of about 700,000 tons.

What is USDA doing to help the U.S. rice industry secure a share of this important market?

Answer. In fiscal year 1992, the U.S. Department of Agriculture announced GSM-102 credit guarantees for rice sales to the former Soviet Union totaling \$13 million. In addition, 22,000 metric tons of rice with a value of \$8 million was provided to three states of the former Soviet Union under food aid programs..

During fiscal year 1993 the announced GSM-102 credit guarantee programs were reduced from the fiscal year 1992 level and rice was not requested by Russia or Ukraine within the allocations. The planned rice allocations under food aid programs now total about 130,000 metric tons with an estimated value of 33 million for five states of the former Soviet Union.

Question. Will the food assistance package announced in Vancouver include rice?

Answer. The commodity mix for the \$700 million food assistance package for Russia has not been determined at this time, however, we anticipate that rice will be one of the commodities considered for inclusion in the program.

Question. What percentage of U.S. food credits and other forms of food assistance for Russia and other former Soviet Union republics has been allocated to rice?

Answer. Considering all the programs, the percentage of rice allocations have totaled less than one percent. As is the case with credit guarantee and food aid programs, the U.S. Department of Agriculture can encourage the country to request certain commodities, but ultimately the importing country decides what type and grade of commodity to purchase.

#### MARKET PROMOTION PROGRAM (MPP)

Question. Is the Market Promotion Program meeting its objectives? How successful has this program been in developing and increasing exports of U.S. agricultural products.

Answer. Yes, we believe the Market Promotion Program (MPP) is meeting its objective as outlined in the legislation to encourage the development, maintenance, and expansion for U.S. agricultural commodities. We believe there is evidence that MPP plays a supportive role in this export expansion.

In general terms, 80 percent of MPP funding for high-value products helped generate a record level (\$23 billion) of such exports in FY 1992--up a substantial 14 percent from 1991 and 42 percent from 1988.

There are also specific commodity examples. For example, fresh winter pears have seen tremendous export increases, from just under \$10 million in 1986 to nearly \$26 million in markets targeted for use of MPP funds. Overall winter pear exports increased from just under \$21 million to more than \$58 million in the same time period. Exports of shelled and in-shell U.S. walnuts have grown from \$72 million in 1986 to more than \$120 million estimated in 1991 in MPP-targeted markets.

U.S. red meat is another example. In 1986, U.S. red meat exports were close to one billion dollars. In 1992, red meat export values reached an all-time high of \$2.8 billion. MPP provided resources, enabling the industry to tap the potential in the export markets. Similarly, beef exports in 1991 were equivalent to 1.7 million cattle slaughtered during the year and 5.2 percent of domestic beef production. The estimated impact of beef exports on cattle prices in 1991 was \$5.65 per cwt for fed cattle, \$8.46 per cwt for yearling feeder cattle and \$12.16 per cwt for calves. Average cattle prices declined in 1991, but the value of exports and their impact on cattle prices increased.

In addition, MPP, through the efforts of the Alaska Seafood Marketing Institute (ASMI), assisted the U.S. salmon industry to nearly double the volume of canned salmon exports to the United Kingdom from 1987 to 1991. This is particularly noteworthy because during the 1980's world supplies of salmon nearly doubled due to the advent of subsidized farm-raised salmon production.

Question: What has been the return on the taxpayers investment in the Market Promotion Program in terms of the export increases and economic benefits it has generated directly for every dollar spent?

Answer. We do not have a definitive answer. Even the Government Accounting Office admits that this is difficult to determine. However, the Department believes that there is a direct relationship between program funding levels and the level of U.S. agricultural exports. We can say that MPP plays a supportive role in export expansion.

In broad terms, economic analyses conducted by the Foreign Agricultural Service indicate that the increase in U.S. agricultural exports that likely could be attributed to export promotion under the MPP's predecessor, the Targeted Export Assistance Program, from 1986 was several times program expenditures. Specifically, the analyses indicated that agricultural exports attributable to targeted promotion during the 1986-88 period ranged from \$2 to \$7 for each \$1 of program funding. That is, assuming both that no MPP funds displace any commercial funds that would have been committed, and, that the experience of the first two years of the TEA program are representative of the extended experience of the MPP.

Question. Is the FAS performing evaluations of participant programs funded under the Market Promotion Program? How often are the evaluations done and what criteria/standards are used to determine whether these programs are meeting their objectives?

Answer. Yes, the Foreign Agricultural Service (FAS) is performing evaluation of participant programs funded under the Market Promotion Program. The Department applies evaluation throughout the program in various forms addressing both short and long term program perspective from day to day activity reviews to the Long Term Agricultural Trade Strategy (LATS).

Many steps have been taken to strengthen the evaluation process. The Department is committed to further enhancing the evaluation process and to improve the application of these results.

The evaluation process requires assessment on several different levels. The participant, Foreign Agricultural Service/Washington and foreign staff, and technical experts are involved in these assessments.

-Activity Evaluation: Each activity is evaluated 90 days after completion based on an activity-specific goal which must be stated in quantified terms.

-Periodic reports and consultations: This type of evaluation is ongoing, reviewing process and adjusting the program based on feedback from formal and informal evaluations. The information is provided in a variety of forms including participant trip and activity reports, periodic status reviews, travel, and FAS/Participant meetings.

-Annual Reviews: There are two scheduled reviews that occur for all program participants: the MPP annual application/allocation process and the MPP activity plan approval. These are extensive reviews of the Participant's overall program, assessing program effectiveness and actual export performance as related to stated export goals. Information drawn from the activity evaluations and the periodic reports and consultations are also critical in the analysis. This type of evaluation provides the bases for annual program budget levels along with any conditions related to the operation of the Participant's program.

-Program Evaluation: Evaluation also occurs when potential program problems surface. Taking a broader perspective, these program evaluations are initiated to make a more in-depth review. Program evaluations may take one of three forms: an independent third party, a Foreign Agricultural Service-generated evaluation, or a Participant-generated study. The evaluation results generally lead to significant program changes as in the case of a meat and poultry program evaluation in the Middle East.

-MPP Evaluation: Provisions of the 1990 legislation required the Department to evaluate the effectiveness of funding under the Market Promotion Program within 15 months of the initial provision of MPP. A methodology was developed to identify potentially ineffective MPP funding for particular commodities in particular



country markets. These markets were identified using a quantitative methodology. This evaluation methodology was used in the 1993 MPP allocation to indicate those markets which appeared to be falling short of their goal, especially in relation to dollars expended.

-Long Term Agricultural Trade Strategy: The Department recently completed the Long Term Agricultural Trade Strategy (LATS) which we refer to as an "umbrella" strategy -- it provides the guiding principles for assuring that management of Department programs will be directed in a coordinated fashion to efficiently and effectively assist the private sector in increasing U.S. agricultural exports. This exercise identifies both country and product priorities, establishing the framework for evaluation Participants' programs.

Question. Concerns have been raised about the Market Promotion Program in terms of its general administration, and the amount of funds allocated to promote brand-name products and to promote products of private for-profit companies overseas.

Are these valid concerns in the Department's view? If so, what actions have been taken or what program reforms would you recommend to overcome these criticisms of the programs?

Answer. Concerning the administration of the program, this is not a valid criticism based on the program changes initiated in the past 2 years. We believe that the program as it is currently structured provides sufficient controls and oversight.

Admittedly, during the start up phase of the Targeted Export Assistance program, there were areas within the program that needed strengthening. Changes were initiated as a result of recommendations from the Department and the Government Accounting Office.

The Department recognizes the need to be accountable to the taxpayer. The Department has taken several initiatives to strengthen and improve the effectiveness and integrity of the MPP. One of the most significant changes was the development and publication of regulations in the fall of 1991. The most notable provisions under the Interim Rule include:

- enhanced application requirements
- a cost-share obligation with a minimum level of contribution of no less than 5 percent
- a minimum of 50 per cent U.S. origin content for eligibility
- limitations on salary and allowance expenses for overseas employees and consultants
- limitations on demonstration and training activities
- a new reimbursement rule for branded promotion
- tighter administrative controls

Additional measures have been taken to strengthen program management:

- established internal procedures for the 1993 MPP allocation which resulted in announcing the program 3 weeks earlier than 1992
- enhanced the MPP application analysis by including a cross-commodity evaluation process that provided indicators when country programs were falling short export performance in relation to dollars spent
- instituted a policy requiring FAS to approve activity plans, or portions thereof, within 30-business days of receipt from the participants.
- Expanded the MPP allocation formula to address the concerns raised by the Congress on percent of U.S. origin content and the degrees of product processing in the United States
- Improved turnaround of the MPP reimbursement claims

Concerning criticisms regarding participation of private firms in the MPP program, we do not believe they are warranted. One of the most effective means for accomplishing this goal is through brand products sourced from U.S. commodities. Most consumer-ready products are sold on the basis of brand. To maximize returns in the program, we believe participation by private for-profit firms is essential.

As stated in our June 1991 Regulatory Impact Analysis, U.S. exporters, particularly those selling branded products likely have an incentive to invest in overseas market development without the assistance of U.S. Government programs. However, the private sector's incentive is too often offset by uncertainties and risk and is not simply based on meeting quality and price competition. These uncertainties include: 1) insufficient knowledge of foreign consumer preferences; 2) language barriers; 3) inexperience in operating in an international environment; and, 4) obstructionist foreign government involvement in trade, i.e. what may be considered as unfair trading practices. The MPP will utilize USDA's international infrastructure and knowledge base to help U.S. exporters gain knowledge and skills necessary to compete in foreign markets and, improved access to foreign markets.

Because the knowledge and skills necessary to compete in international markets is, along with combating unfair trading practices, one of the key benefits that the MPP can offer exporters, FAS will work to ensure that funding goes to firms with less knowledge and experience in international marketing. These firms probably will be primarily small and medium size firms. It is with these firms where the export information gained is critical and where MPP's role sharing the risk of a new venture between a firm and the Government is most valuable.

Concerning the issue of providing promotional assistance to foreign firms, first and foremost, the Department is committed to promoting the U.S. contents of the product. The brand, whether it be U.S. or foreign, only serves as the vehicle for accomplishing this objective. We have, however, incorporated a factor in the Market Promotion Program allocation process which gives priority consideration to those organizations who administer brand programs solely with U.S. companies. For example, the amount of funding allocated to foreign firms was only 7.2 percent of the total

funding in 1991. Generally, that approach is taken when it is not economical or feasible because of a foreign country's tariff structure to promote the U.S. product. Therefore, FAS does try to ensure that funding given to foreign firms does not put it in competition with a U.S. firm in the same market.

About 40 percent of the funding is allocated to private firms with about 80 percent of the program directed to high-valued products.

Question. It has been suggested that the MPP support should be phased-out to a participant once trade barriers have been overcome and a market established. Do you agree that such a phase-out provision is needed?

Answer. Although standardized criterion have not been set for phasing out activities, the decision to withdraw financial support is an essential part of the Market Promotion Program (MPP) analyses. The status of activities and programs are determined based on the review of the MPP application and activity plan reviews, taking into account factors as past activity and program evaluation results, trade performance, and changed behavior in the market place. Each activity is approached on a unique and individual basis in determining at what point a participant should phase-out of the market.

However, as previously discussed, the MPP serves to overcome the transaction costs of entering a new market where language, customs and consumer preferences, and government policies and procedures are all new to a firm and so the costs higher and risk greater. With the Federal Government sharing these costs initially, firms are better prepared to operate in the international environment. Because the greatest benefits of the MPP, and Cooperator Program, as well, comes from the introduction of firms to exporting, FAS periodically adjusts programs, cuts back funding levels and redirects activities when the returns from MPP assistance diminish. We support a "graduate" process in this sense.

Question. How is funding under the MPP program being allocated? What percentage of funds is allocated to promote generic or brand-name products? What is the division of funds between new market development versus established markets? What emphasis is being placed on high-value versus bulk commodities? What is the level of participation between small and large private firms under the program?

Answer. The allocations are determined using the following procedure: The commodity Credit Corporation publishes a notice in the Federal Register in accordance with 7 CFR Part 1485. Initially, a Committee of senior marketing specialists conduct an application sufficiency check to ensure compliance with the program announcement and the regulations. Based on the criteria for allocating of CCC resources as set forth in 7 CFR 1485, the Commodity Divisions then critically analyze the accepted applications, taking into account the participant's administrative capability; strategic plan; program scope; program effectiveness;

and the likelihood for future success. Division budget recommendations are made on a country and activity-type (generic/brand) basis.

A second committee, chaired by the Assistant Administrator, Commodity and Marketing Programs, reviews all application analyses. Adjustments made to the Divisions' recommendations are based on the following factors: presence of an unfair trade practice; contribution (cost-share) level; budget size in relation to export level and to expected change in exports; market share goals; export [B]performance compared to export goals/forecasts; percent of U.S. origin content; and the degree of processing the United States. Until now, double weights were assigned to the size of budget compared to the value of exports, the size of the budget compared to the change in value of exports and last year's exports compared to previous year's projections.

Approximately 40 percent of the program funds are allocated to brand promotion with the balance supporting generic promotion. Since the inception of MPP, 80 percent of the funding has supported high-value products. On average, about 85 percent of the MPP funds target developed markets; the markets that have the greatest potential for high-value product imports.

In addition to providing promotional assistance, we opened a new Agricultural Trade Office (ATO) in Mexico, our fastest growing market for consumer-oriented products, and also opened a second ATO in Japan, our largest market for consumer-oriented products. FAS also continues to offer an active trade show program to establish a high quality image for U.S. foods in key markets.

Concerning the level of MPP participation between small and large firms, we can not, at this time, quantify the number of small and large firms for the entire program. We are in the process of surveying the private companies to attempt to obtain that information. However, there has been greater participation of firms under the State Regional Trade Groups (SRTG's) as 375 companies applied for participation in the 1993 brand promotion program compared with 269 participants in 1992. Nearly 80 percent of these companies reportedly have fewer than 500 employees.

Concerning company size, it has been FAS policy to focus on what is in the package, not who produces the final product. As such, we administer the program on a size neutral basis. However, as firm size correlates with export experience and international skills, in order to generate the greatest additionality from MPP expenditures, FAS will take the factor into consideration.



## QUESTIONS SUBMITTED BY SENATOR SPECTER

## DAIRY EXPORTS

Question. Mr. O'Mara, recently a group of dairy farmers from the United States made a trip to Russia to discuss trade potential with Russia. Upon their return, they reported to my office that Russia is very interested in future trade with the U.S. for dairy products, with particular interest in obtaining U.S. dairy products as part of the recently announced aid package to Russia as a result of the meetings in Vancouver between President Clinton and President Yeltsin. I further understand that there exists some 450 million pounds of surplus butter in storage by USDA's Commodity Credit Corporation which could be made part of the aid package proposed.

Would the Department consider making dairy products part of the \$700 million in agriculture credit sales under the Food for Progress program proposed under the Russian Aid Package?

Answer. Yes, substantial quantities of butter are being held in CCC inventories and this butter will be available for consideration in the Russian Food Aid Package.

Question. What steps must be taken to ensure that U.S. dairy products are included as part of the Russian Aid Package?

Answer. When we meet with the Russian Delegation to discuss the commodity mix for this program we will certainly make the case for including butter in the program.

Question. Mr. O'Mara, the Market Promotion Program has been scrutinized over the past several years in an effort to ensure that funds under the program are used in the promotion of commodities that will develop markets overseas for U.S. producers. The Administration has proposed a cut in the program's funding level with an intention that reduced funds will ensure the most effective use of available resources.

Is the Department proposing any type of legislative reform of the program?

Answer. No, the Department is not considering any type of legislative reform.

Question. Are there any attempts at the Department to work within the existing authorization to ensure that the program is developing markets without restricting the benefits of the program to the U.S. producers or manufacturer?

Answer. Yes, the Department attempts to maximize the development of foreign markets, taking into account the effect on U.S. producers and manufacturers. The program is open for application to any nonprofit or private firm that satisfies the MPP criterion as described in the interim regulations.

## QUESTIONS SUBMITTED BY SENATOR GORTON

## MARKET PROMOTION PROGRAM

Question. In the past, much discussion has been given to the problems which plague the MPP program. In fact both House and Senate Appropriations reports for this subcommittee last year dedicated a good portion of discussion to these problems. Although there are undoubtedly other MPP success stories to be told around this table, I wonder if you know how much Washington state apples have benefited from the small amount of money it receives from this program.

With the assistance of MPP funds, U.S. apple exports have skyrocketed in value from just \$130 million in fiscal year 1988 to \$344 million last year. Last year the Washington Apple Commission received \$4.41 million in MPP funds -- funds which were matched with \$1.412 million by the apple industry for promotional activities in 20 countries. Are you familiar with the outstanding benefits which the MPP program provides for Washington apple growers?

Answer. Washington apple growers have indeed benefited from the Market Promotion Program (MPP). Not only do Washington apple growers reap the benefits of the MPP, but also all U.S. apple growers benefit from increased exports when production is diverted from the domestic market.

Exports in general, and exports to new markets, have continued to grow since the Washington Apple Commission (WAC) began its participation in MPP. Washington State exports, as a percentage of its fresh apple sales, have grown from a low of less than 10 percent in 1986/87 to over 27 percent last season. Shipments to Mexico (a new market last year), have shot up to almost 3.2 million boxes this season to-date. This represents close to \$42 million in sales. Mexico's shipments this season have already surpassed WAC's traditional number one export market -- Taiwan.

Furthermore, the WAC has calculated that for every MPP dollar spent in 1991/92, \$88 of income was generated in the Washington State economy. This translated to close to \$400 million of income for Washington State residents. Wages and profits for growers, packers, and their employees; and payments to apple industry and consumer suppliers and related services are included in this total.

OFFICE OF INTERNATIONAL COOPERATION AND  
DEVELOPMENT

QUESTIONS SUBMITTED BY SENATOR BUMPERS

Foreign Currency Research Program

Question. It is my understanding that the 1990 farm bill changed the foreign currency research program so that no appropriations are required. Rather, research is to be funded with foreign currencies which are received as payments under the Public Law 480 title I concessional sales program. What is the status of this program? Are you conducting research in 1993?

Answer. No research grants were awarded by USDA under this program in fiscal year 1992 or 1993. You are correct that, in former years, OICD had an annual appropriation for "Scientific Activities Overseas -- Foreign Currency Program". The last year in which we received this funding was FY 1991. In Section 1512 of the 1990 FACT Act, the Congress amended the Agricultural Trade Development and Assistance Act of 1954 to authorize several uses for foreign currencies received as payments under the P.L. 480 Title I concessional sales program, including agricultural, forestry and aquaculture research. Any such local currency sales are considered a grant and, therefore, a 100 percent credit subsidy for purposes of Title I programming under the Credit Reform Act. This makes sales for foreign currencies more expensive, in terms of allocating credit budget authority, than sales for dollars. USDA has not signed any FY 1993 Title I programs with local currency components, so no funds are available for this program.

Question. How much money has been generated for this account, from what countries, and for what is it being used?

Answer. As no agreements have been signed with local currency components, no funds have been generated under this mechanism.

Question. What are your projections for 1994 in terms of the amount of funds available for the program?

Answer. Under current policy, no agreements with local currency components are planned for FY 1994, and so we do not project any funds being available at this time.

## SOIL CONSERVATION SERVICE

## QUESTIONS SUBMITTED BY SENATOR BUMPERS

## ENVIRONMENTAL PROTECTION

Question. Previously the Soil Conservation Service was seen as the agency at USDA for environmental protection. Now SCS is proposed to be folded into the Farm Service Agency. How do you perceive the environmental community will look upon the agricultural industry if there is no identifiable agency within USDA whose mission is specifically natural resource protection?

Answer. We believe, regardless of reorganization, that there will be an agency within USDA whose mission will include natural resource protection. USDA will increasingly function as a mediator between environmental and agricultural interests to integrate environmental policy into workable, economically viable solutions to natural resource problems. USDA will play a leadership role in enabling landowners and others to successfully manage and improve their ecosystem, ensuring both resource protection and economic viability.

## WATERSHED AND FLOOD PREVENTION OPERATIONS

Question. Please provide a list of projects and amounts funded in 1993 under all three segments of the watershed and flood prevention operations program.

Answer. We will provide the requested information for the record

FLOOD PREVENTION PROGRAM PUBLIC LAW 78-534  
FISCAL YEAR 1993 ALLOWANCES

STATE	PROJECT NAME	AMOUNT
CALIFORNIA	LOS ANGELES	\$200,000
CALIFORNIA	SANTA YNEZ	0
GEORGIA	COOSA	0
IOWA	LITTLE SIOUX	3,022,000
MISSISSIPPI	LITTLE TALLAHATCHIE	3,073,000
MISSISSIPPI	YAZOO	11,601,000
NEW YORK	BUFFALO	215,000
OKLAHOMA	WASHITA	3,245,000
TEXAS	MIDDLE COLORADO	4,013,000
TEXAS	TRINITY	3,487,000
VIRGINIA	POTOMAC	1,330,000
WEST VIRGINIA	POTOMAC	15,995,000
TOTAL TO STATES		46,181,000
PROGRAM SUPPORT		1,889,800
NATIONAL TECHNICAL CENTERS		389,000
TRAINEE RESERVES		45,000
UNDISTRIBUTED CONTRACT MODIFICATION RESERVE		124,692
Subtotal		2,448,492
FOREST SERVICE work in Los Angeles		1,216,000
FOREST SERVICE work in Santa Ynez		616,000
FOREST SERVICE work in other projects		188,000
Subtotal FOREST SERVICE		2,020,000
FARMERS HOME ADMINISTRATION		80,000
GRAND TOTAL		<u>\$50,729,492</u>



## EMERGENCY WATERSHED PROTECTION PROJECTS FY 1993

<u>STATE</u>	<u>COUNTY/ACTIVITY</u>	<u>DOLLARS</u>
Alabama	Monroe County	\$38,000
Arizona	Navajo County	78,000
Arizona	Hurricane Lester	70,000
Arizona	Pima County	65,000
Arizona	Jan. 93 Storm	2,150,000
Arkansas	Stone, Columbia Ctys.	20,000
California	Shasta, Trinity Ctys	185,000
California	Hesperia Channel	60,000
California	Riverside County	150,000
Colorado	Archuleta County	7,000
Connecticut	June 92 Storm	130,000
Florida	Walton County	30,000
Indiana	Porter County	17,000
Kentucky	Breathitt County	1,200
Kentucky	Carroll, Gallatin Ctys.	240,000
Louisiana	11 projects	1,175,000
Louisiana	Hurricane Andrew	300,000
Maine	Cumberland, York Ctys.	1,000
Mississippi	17 Counties	6,732,000
Mississippi	Adams, Jones, Simpson, Hinds, Prentiss Ctys.	2,842,000
Mississippi	13 Counties	9,900,000
Mississippi	Delta, Bienville Ctys.	135,000
Montana	Lincoln County	4,000
New Jersey	Morris County	483,000
New Mexico	San Francisco River	35,000
North Carolina	Madison County	6,000
Ohio	Lorain County	63,500
Ohio	Jefferson County	5,000
Oklahoma	Stephens County	100,000
Oklahoma	Pontotoc County	25,000
Oklahoma	Spring Brook	44,000
Oklahoma	Seminole County	195,000
South Carolina	Hess Creek	60,000
South Carolina	Saluda County	93,750
Texas	15 Counties	819,000
Utah	EWP Information	10,000
Vermont	Montpelier	10,000
Virginia	Tyre River	37,000
Virginia	Nelson County	16,400
Washington	EWP Information	12,500
West Virginia	Mason County	1,131,000
West Virginia	Potomac Basin	1,300,800
West Virginia	Randolph County	104,800
Subtotal to states		<u>\$28,881,950</u>
Program Support		1,495,300
Undistributed for contingency and contract modification		259,262
TOTAL		<u>\$30,636,512</u>

## DIRE EMERGENCY SUPPLEMENTAL APPROPRIATION FY 1993

<u>STATE</u>	<u>COUNTY/ACTIVITY</u>	<u>DOLLARS</u>
Alaska	Ft. Yukon	\$2,134,000
Arizona	Navajo County	42,000
Arizona	Hurricane Lester	9,400
Arizona	Havasupai Canyon	29,000
Arizona	Jan 93 Rains	5,016,000
California	Ventura County	360,000
California	Riverside,	790,000
	San Bernadino Ctys.	
Florida	Hurricane Andres	14,000,000
Florida	Dixie, Taylor Ctys.	3,500,000
Hawaii	Hurricane Iniki	998,000
Idaho	Blaine County	100,000
Idaho	Elmore County	730,000
Idaho	Boise County	151,000
Indiana	Stuckr Fork	30,000
Iowa	Lake Ellis	30,000
Kentucky	Boyd, Henry, Trimble	905,000
	Clay Counties	
Kentucky	Trimble, Henry Ctys.	500,000
Louisiana	Hurricane Andrew	10,000,000
Mississippi	6 projects	1,060,000
Nevada	Washoe County	115,000
New Jersey	Lambertville	136,000
New Mexico	Gila River	625,000
New York	St. Lawrence,	150,000
	Oneida Ctys.	
North Carolina	Swain County	1,925,000
Ohio	Lorain, Erie,	15,300
	Jefferson Ctys.	
Pacific Basin	Typhoon Omar	23,000
Puerto Rico	Jan 93 Storms	5,000,000
South Carolina	Hampton, Colleton	625,000
	Allendale, Bamberg Ctys.	
South Carolina	Pickens County	250,000
Tennessee	Sequatchie County	300,000
Texas	77 Counties	7,500,000
Utah	Wanship County	115,000
Virginia	9 Counties	320,000
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Subtotal to states		<u>\$57,483,700</u>
Forest Service		2,644,000
Undistributed for contingency and contract modification		<u>1,872,300</u>
TOTAL		<u>\$62,000,000</u>

WATERSHED PROTECTION AND FLOOD PREVENTION  
PUBLIC LAW 83-566  
FISCAL YEAR 1993 ALLOWANCES AS OF MAY 3, 1993

<u>STATE</u>	<u>AMOUNT</u>
ALABAMA	\$2,220,000
ARIZONA	3,400,000
ARKANSAS	4,300,000
CALIFORNIA	4,770,000
COLORADO	2,891,000
CONNECTICUT	1,241,700
DELAWARE	805,000
FLORIDA	830,000
GEORGIA	3,457,000
HAWAII	5,442,000
IDAHO	653,100
ILLINOIS	2,910,000
INDIANA	1,110,000
IOWA	4,273,100
KANSAS	5,344,000
KENTUCKY	1,796,000
LOUISIANA	4,519,000
MAINE	670,000
MARYLAND	405,000
MASSACHUSETTS	965,000
MICHIGAN	1,592,000
MINNESOTA	3,029,000
MISSISSIPPI	7,333,000
MISSOURI	5,827,000
MONTANA	1,160,000
NEBRASKA	2,852,000
NEVADA	520,000
NEW HAMPSHIRE	392,300
NEW JERSEY	712,000
NEW MEXICO	13,771,000
NEW YORK	2,275,000
NORTH CAROLINA	2,965,000
NORTH DAKOTA	593,000
OHIO	3,450,000
OKLAHOMA	5,606,800
OREGON	1,615,000
PACIFIC BASIN AREA	572,000
PENNSYLVANIA	6,133,500
PUERTO RICO	2,200,000
RHODE ISLAND	105,000
SOUTH CAROLINA	1,655,000
SOUTH DAKOTA	116,000
TENNESSEE	3,905,208
TEXAS	8,635,000
UTAH	1,900,000
VERMONT	1,018,000
VIRGINIA	5,224,000
WASHINGTON	2,385,000
WEST VIRGINIA	19,032,000
WISCONSIN	4,988,100
WYOMING	650,000
TOTAL TO STATES	164,213,808
PROGRAM SUPPORT	8,501,800

NATIONAL TECHNICAL CENTERS	5,694,200
FOREST SERVICE	410,000
FARMERS HOME ADMINISTRATION	172,500
UNDISTRIBUTED, CONTRACT MOD. RESERVE	3,654,446
GRAND TOTAL	<u>\$182,646,754</u>

Allowances to States include technical and financial assistance funds. The allowances support work on 597 active watershed projects.

Allowances are not kept at the national level on a project by project basis for the current year. Historical obligations are project by project (with technical and financial assistance combined).

Question. Please provide the same information proposed for FY 1994.

Answer. Allowances for fiscal year 1994 will be made based on 1994 appropriations and on the states' requests and priorities. These decisions will not be made until later this fiscal year.

#### RESOURCE CONSERVATION AND DEVELOPMENT

Question. Please provide a list of projects and the amounts funded in 1993 under the Resource Conservation and Development program.

Answer. Each year approximately 1400 projects are completed by RC&D Councils around the country. RC&D funding is limited to 25 percent of the total cost not to exceed \$50,000. Costs per measure are not available, but in the past RC&D funds have attracted \$7 dollars of other federal money and \$20 in state and local funds for every RC&D dollar contributed by the SCS.

Question. What new areas were funded in 1993?

Answer. The following is a listing of the new areas funded in 1993.

#### NEW RC&D AREAS FUNDED IN 1993

<u>State</u>	<u>Area Name</u>
Alabama	Gulf Coast RC&D Area
Georgia	Seven Rivers RC&D Area
Missouri	Prairie Rose RC&D Area
Missouri	Osage Valley RC&D Area
Montana	Northwest Montana RC&D Area
Nebraska	Northeast Nebraska RC&D Area
Nebraska	Loup Basin RC&D Area
North Dakota	Upper Dakota RC&D Area
North Dakota	Williston Basin RC&D Area
Puerto Rico	El Atlantico

Question. Please provide the same information proposed for 1994.



Answer. This information is unavailable at this time. The selection of new area proposals is up to each RC&D council and agreed to by the State Conservationist.

Question. What new areas are proposed for 1994?

Answer. At this time, we do not anticipate adding to the number of authorized RC&D areas in 1994. However, we may consider expanding the size of some of the currently authorized areas as long as no additional resources are needed to service them.

#### PRIVATE GRAZING LANDS

Question. Please describe the private grazing lands conservation initiative.

Answer. The Grazing Lands Conservation Initiative (GLCI) was developed by a confederation of national organizations focused on enhancing privately owned grazing lands. Some of the 634 million acres of privately owned grazing lands in the U.S. are found in every state. When properly managed, these lands contribute to a healthy environment and economy. Private grazing land owners are eager to voluntarily improve their lands; however, they recognize they need technical assistance to help them use current science and technology to make sound grazing land management decisions.

Existing technical assistance is very limited for grazing land owners in most states and almost non-existent in others. Professionals, trained in the management of pasturelands, grazeable woodlands and rangelands, are needed to provide assistance to landowners who desire to voluntarily sustain and improve their grazing lands so the many values these lands provide can be realized across the country.

Question. What will it do?

Answer. The major focus of the GLCI is to enhance privately owned grazing lands through the reestablishment of direct conservation technical assistance to the farmers and ranchers who own these lands. This technical assistance program will be carried out using a total resource management approach with private grazing land owners who voluntarily request assistance. Some of the benefits the American public would receive through the proper management of grazing lands by their owners are:

- Improved water quality and quantity to urban, rural, domestic, industrial, and agricultural users.
- Reduced soil erosion resulting in less sedimentation of streams and reservoirs and improved air quality.
- Enhancement of rural social stability and economic vigor.
- Improved aquatic systems and fisheries.
- Improved wildlife habitat and population balance.
- Increased opportunities for high quality recreational experiences.

Question. How much will it cost?

Answer. The Soil Conservation Service spends between \$20 million and \$30 million annually to help grazing land owners treat about 30 million acres of range, pastureland and grazed forest lands. At this rate, it will take from 15 to 20 years to treat the remaining private grazing lands currently in less than good condition. The total cost to treat these grazing lands would be \$400 million to \$600 million plus any future increased operating costs.

Question. Is this a new program? If so, was there a similar activity through SCS in the past?

Answer. The SCS currently provides technical assistance on private grazing lands. For example, 24.8 million acres of non-federal rangeland and 4.5 million acres of pastureland were treated with SCS assistance during fiscal year 1992. Since the 1985 and 1990 Farm Bills, the major focus of the SCS has been re-directed to compliance planning on highly erodible cropland and other issues, while still providing about 60 to 70 percent of the traditional level of technical assistance to grazing land owners.

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## QUESTIONS SUBMITTED BY SENATOR JOHNSTON

### WETLANDS DELINEATIONS

Question. Many farmers from Louisiana continue to contact me about the difficult problems they face with respect to wetlands delineation on agricultural lands.

Farmers and ranchers must deal with the Soil Conservation Service when determining which lands are wetlands for the purpose of complying with the swampbuster provisions of the 1990 Farm Bill.

Farmers and ranchers must also deal with the Army Corps of Engineers and the Environmental Protection Agency when determining which lands are wetlands for the purpose of complying with dredge and fill rules of section 404 of the Clean Water Act.

As I understand it, SCS and the U.S. Fish and Wildlife Service use the definition of a wetland contained in the 1990 Farm Bill in making determinations while the Corps and EPA rely on the 1987 Delineation Manual in making such determinations.

I am told that farmers face determinations on wetlands under 2 different definitions, 2 separate sets of regulations and by as many as 4 different agencies. This is confusing, burdensome and costly for farmers.

What is the precise definition SCS uses in making determinations and how does this differ from the 1987 Delineation Manual's definition?

Answer. The term "wetland", as used by SCS and defined in 7 CFR Part 12.2, means land that has a predominance of hydric soils

and that is inundated or saturated by surface or ground water at a frequency and duration sufficient to support, and that under normal circumstances does support, a prevalence of hydrophytic vegetation typically adapted for life in saturated soil conditions, except that this term does not include lands in Alaska identified as having a high potential for agricultural development and a predominance of permafrost soils.

This wetland definition is virtually identical to that contained in the 1987 COE Delineation Manual, which is found in 40 CFR Part 230.3(t) and 33 CFR Part 328.3(b), and reads: Those areas that are inundated or saturated by surface or ground water at a frequency and duration to support, and under normal circumstances do support, a prevalence of hydrophytic vegetation typically adapted for life in saturated soil conditions. Wetlands generally include swamps, marshes, bogs, and similar areas.

Question. I am also told that producers receive conflicting responses from SCS and the Corps or EPA on whether lands are wetlands.

In your opinion, is this a significant problem? In how many instances do or could conflicting answers occur?

Has SCS attempted to persuade the Corps and EPA to revise their definition and make it consistent with that used by SCS? Would SCS support such a revision?

Answer. While the SCS, COE and EPA have a common definition of wetlands, the current criteria, indicators and methodologies utilized by these agencies to identify and delineate wetlands are slightly different. The COE and EPA use the 1987 COE wetland delineation manual to identify and delineate wetlands, while SCS uses the criteria and methodologies found in 7 CFR Part 12.31 and the National Food Security Act Manual (FSAM).

Because of subtle differences in the vegetation and hydrology criteria, it is possible for variable wetland delineations between the SCS and the COE or EPA to occur. In addition, the majority of original SCS wetland determinations are performed using off-site techniques, and are not intended for use as precise wetland boundary delineations as are the COE on-site wetland delineations.

SCS recognizes the technical and public concerns caused by these inconsistencies in wetland identification methods. Thus, SCS is currently working closely with the COE and EPA to revise the criteria and methodologies for wetland identification and delineation to be as consistent as possible with the 1987 COE manual. For example, the COE and EPA have already adopted the SCS policy concerning the delineation and regulation of prior converted cropland and farmed wetlands. Other revisions to clarify federal wetland delineations among the various agencies will be guided by the President's office of environmental policies.

Question. I am also told that different mitigation requirements are placed on the same piece of land because the mitigation requirements under section 404 of the Clean Water Act and

the swampbuster provisions of the 1990 Farm Bill are inconsistent. What are the two requirements and how do they differ?

In your opinion, is this a significant problem?

In how many instances do or could conflicting requirements occur?

Has the SCS recommended to the Corps and EPA that mitigation requirements for agricultural wetlands under section 404 be revised to be consistent with swampbuster provisions for these lands? Would SCS support such a revision?

Answer. SCS uses mitigation for wetland losses under restrictive, prescribed circumstances in recognition of the purpose of FSA to limit the conversion of wetlands to agricultural uses so that environmental values in rural agricultural areas are maintained and enhanced. The two instances in which SCS contemplates mitigation are as follows:

- a. Mitigation for lost wetland values, acreage and function on frequently cropped wetlands converted for future crop production or past conversions between December 23, 1985 and November 28, 1990. The mitigation requirements specify, for example, the preparation of a wetland mitigation plan; the type of wetland to be used for mitigation; the location of the mitigation; the placement of an easement of the mitigation site; and the level of functional value to be mitigated.
- b. Replacement of lost wetland values for non-frequently cropped wetlands, so long as the permitting requirements of Section 404 of the Clean Water Act and other applicable federal and state laws have been met; the purpose of the conversion is not solely the increase of production of an agricultural commodity; wetland functions and values must be replaced on the same farm; an easement on the replacement wetlands is taken, and an approved mitigation plan is in effect prior to the conversion.

The goal of the Clean Water Act and the Section 404(b)(1) Guidelines is, in brief, to restore and maintain existing aquatic resources; to this end, the COE and EPA strive to avoid and minimize adverse impacts, and offset unavoidable impacts, to these aquatic resources. With specific regard to wetlands, it is the policy of the COE and EPA to strive to achieve a goal of no overall net loss of wetland function. In the instance of unavoidable wetland losses, appropriate compensatory mitigation is required. The determination of what level of mitigation constitutes "appropriate mitigation" is based solely on the values and functions of the wetlands resources that will be impacted. Mitigation plans that the COE determines to be in compliance with the 404(b)(1) Guidelines of the Clean Water Act typically include detailed specifications for the restoration of wetland hydrology and vegetation; monitoring schedules and success criteria by which the function of the mitigation is determined; contingency plans in case of mitigation failure; and, in certain instances, the placement of restrictive covenants on the mitigation site to protect it from future impacts.



The technical distinctions between the types of acceptable mitigation required by SCS, COE and EPA are minimal. Because of this, SCS does not believe that mitigation conflicts between the COE and SCS are a significant problem. Furthermore, the FSAM requires that a landowner obtain a 404 permit and any other federal or state approval prior to the approval of the mitigation plan by SCS.

However, the circumstances and processes through which the mitigation plans are developed and approved are different, which can lead to seemingly duplicative agency review of the proposed mitigation plan. To rectify this administrative problem, SCS is committed to working with the COE, EPA and FWS to develop joint review processes for mitigation plans where there is overlapping jurisdiction. Discussions with these agencies has been initiated with an emphasis on national mitigation guidance and improved coordination between SCS, COE, EPA and FWS field personnel involved in the day-to-day development and approval of mitigation plans.

Question. The 1990 Farm Bill directs SCS to identify and certify wetlands. Has the process of delineating wetland on maps begun? What is the status of this requirement?

Answer. The Soil Conservation Service (SCS) started to delineate wetlands in 1986. We are currently using the delineation procedures equivalent to the criteria and procedures contained in the 1989 Federal Manual to identify and delineate wetlands on agricultural lands and lands which have potential for conversion to agricultural uses. By May of 1991 approximately 55 to 60 percent of the determinations had been completed. During this same period SCS stopped determinations, except by request, because conflicts with the update of the 1989 Delineation Manual were unresolved. The SCS is working with both the COE and EPA, but has not yet adopted an approach it considers satisfactory. In November of 1992 this issue was passed to the National Academy Of Science (NAS) for study.

Question. How much would be required for SCS to complete the inventory and mapping process required by the Farm Bill? Are any funds requested for this purpose in the FY 1994 budget?

Answer. The SCS has estimated that it will take approximately \$90 million to complete one million wetland determinations. The major portion of this cost represents SCS field office staff time. There will also be a need to revise 500,000 old determinations at a cost of \$15 million. No specific funding request was made in the 1994 budget for wetland determinations; however, funding for this activity would be carried out within the amount requested for the FSA.

SCS encourages the use of a standard photo-image base map and standard wetland mapping conventionals for all agencies in order to provide an accurate and common geographic location of the wetlands to landowners. SCS also encourages the use of satellite imagery and other remote sensing technology to help in wetland determinations and recertification. SCS is supporting a cooperative national digital orthophotography program initiative to supply this base map requirement.

Question. How much could the SCS obligate in FY 1994 for this purpose?

Answer. Of the \$90 million estimated for the wetland determination process, \$49.4 million would be obligated in FY 1994 with the balance obligated in FY 1995.

Question. Has the process of recertifying previous determinations (as required by the 1990 Farm Bill) begun and if so, what is the status of this requirement?

Answer. SCS has not recertified any wetland determinations as required by the Food, Agriculture, Conservation, and Trade Act of 1990. SCS has placed a higher priority on completing remaining wetland determinations. Progress on recertification has also been put on hold pending the discussions within the Administration.

Question. Are any funds for this process requested in the FY 1994 budget? How much could the SCS obligate in FY 1994 for this purpose?

Answer. There is no specific 1994 budget request for wetland recertifications. This activity would be carried out within the amount requested for the FSA.

#### GOLDEN MEADOW, LOUISIANA PLANT MATERIALS CENTER

In 1989 funds were added to USDA's budget to construct a Plant Materials Center at Golden Meadow, LA to undertake important work on plants suitable to coastal areas to try to find natural ways to stabilize these fragile and endangered areas. Louisiana contains some 40 percent of the lower 48 states' wetlands, and is losing an average over 35 square miles of land each year. So we in Louisiana see as a very high priority research efforts such as those underway at Golden Meadow.

Question. How much has been budgeted for research programs at Golden Meadow in FY 1994?

Answer. We anticipate spending about \$217,000 for Center operations and \$55,000 for capital improvements at the Golden Meadow Plant Materials Center in 1994 assuming that the total budgetary resources available for this budget activity are about the same as in FY 1993.

Question. How does this compare to FY 1993 and to prior years since the inception of this program?

Answer. The funds for Center operations are about the same. The funds for capital improvement are down significantly. During the past three years, over \$1,000,000 has been provided Golden Meadow for capital improvements. Most of their initial development needs have been met, commensurate with the Center's operational budget.

Question. How does this compare to other plant materials centers around the nation?

Answer. The operations budget of Golden Meadow is similar to other centers. The initial appropriations by Congress for the operations of Golden Meadow was \$150,000 in FY 1989, increased by \$50,000 to \$200,000 in FY 1990. Because the total plant materials center budget funding has not increased, the operating funds for all centers has remained near the FY 1990-93 average.

Question. Do you agree that the work the Golden Meadow facility is undertaking is important and can play a positive role in restoring fragile marshland?

Answer. Yes, Louisiana is facing a continuing, catastrophic deterioration of its coastal wetlands. This deterioration is most evident in the loss of vegetated wetlands. Approximately 20,000 acres of Louisiana's valuable coastal wetlands are vanishing each year. Approximately 52 acres of land are lost to open water every day. Coastal Louisiana contains nearly 3 million acres of wetlands and about 650,000 acres of forested wetlands. Over 80 percent of these lands are privately owned. Wetlands border the Gulf of Mexico along the entire Louisiana shoreline and extend inland more than 60 miles at some locations. Salt marshes occur nearest the Gulf of Mexico and grade into brackish, intermediate, and fresh marshes as you move inland. Forested wetlands occur inland from the fresh marshes. Louisiana's coastal wetlands are part of a tremendously productive ecosystem.

The state of Louisiana contains 40 percent of the nation's conterminous coastal wetlands; however, Louisiana is experiencing nearly 80 percent of the nation's annual loss of coastal wetlands.

Louisiana's wetlands contribute over one billion pounds annually to the nation's commercial fish and shellfish harvest. Louisiana wetlands support some 175 nesting colonies of wading birds, seabirds, and shorebirds, and provide a wintering habitat for 66 percent of the waterfowl that use the Mississippi Flyway. Louisiana's wetlands support a bountiful harvest of renewable natural resources with an estimated value exceeding \$1 billion per year. The continued loss of these wetlands will have significant adverse impacts on the nation's economy.

Each year Louisiana's coastal wetlands account for:

- Commercial fish and shellfish benefits with an estimated worth of \$790 million.
- 40 percent of the nation's wild fur and hide harvest worth \$18 million.
- 66 percent of migratory birds using the Mississippi Flyway (4.5 million ducks and 420,000 geese) utilize Louisiana's coast for winter habitat, providing waterfowl hunting valued at \$58 million.
- Habitat for the endangered brown pelican, bald eagle, and an additional 6 million wetland dependent birds.
- Recreational fishing revenues exceeding \$337 million.

Louisiana coastal wetlands provide a critically important buffer to coastal communities and inland Louisiana from surges caused by hurricanes and other storms. It is estimated that a storm surge reduction of one foot is achieved for each three miles of vegetated wetlands. This is an extremely important factor to the 2.7 million people who live and work in the coastal zone of Louisiana.

The Golden Meadow Plant Material Center has a positive and significant impact on the restoration on these wetlands. The Center's Long Range Plan identifies five categories and activities within each category where acceleration is needed. They are:

#### Plant Materials for Revegetation:

- Plant Species for Species for shallow Open Water
- Plant Species for Shorelines
- Plant Species for Barrier Islands
- Plant Species for Dredge and Spoil Materials
- Plant Species for Floating Marsh
- Plant Species for Freshwater Swamps

#### Seed Technology (for Selected Wetland Species):

- Seed Propagation, Harvesting, Processing (Cleaning), Storage.

#### Plant Establishment Techniques:

- Studies Using Containerized Plants for Revegetation
- Wave Stilling Device Studies
- Herbivory Studies
- Vegetative Establishment in High Organic Soils
- Mechanized Planting Studies

#### Technology Development and Transfer:

- Plant Species Standards and Specifications
- Plant Species Salinity Tolerances and Ranges
- Plant Species Water Tolerances and Ranges
- Plant Species Unattractive to Nutria

#### Special Projects:

- Floating Marsh Establishment Techniques
- Water Quality Studies
- Bioengineering
- Workshops and Field Days

Question. One project which would be possible with additional funds and is critically necessary to restoring these areas is a major effort to find a nutria-resistant plant for these areas. What would be required to undertake a concerted effort to test and develop such a plant?

Answer. This project is identified in the Golden Meadow Center Long Range Plan. If initiated, it would be a long term effort, involving input from others such as the biotechnology assistance



from the Crowley Rice Experiment Station. Activities relating to the development of nutria-resistant plants is a part of the additional \$720,000 cost of undertaking an aggressive research program at Golden Meadow.

Question. Have any funds and additional funds been budgeted for this facility in FY 1994, and in particular to design and construct a second greenhouse so the facility can be used to the maximum extent possible?

Answer. \$272,000 are budgeted for Golden Meadow operations and capital improvements.

Question. If not, why not?

Answer. Current budget plans are based on FY 1993 funding for plant materials centers nationally. The total funds available to operate the program will not permit increases for Golden Meadow or any other center in FY 1994.

Question. What would be required in FY 1994 to construct a second greenhouse?

Answer. The estimated cost is \$175,000.

Question. Have any funds and additional FTEs been budgeted for this facility, so that the space provided can be used to the maximum extent possible? If not, why not?

Answer. As previously mentioned, no additional funds are budgeted for Golden Meadow operations in FY 1994, because the anticipated plant materials centers funding will not permit such increases for any plant materials center in FY 1994.

Question. How many more personnel could be accommodated at the existing facility?

Answer. Six or seven.

Question. Much of the work undertaken at the facility is manpower-intensive. Have you considered allocating funds to the facility to institute a summer jobs program for youth in Terrebonne Parish, which has one of the highest unemployment rates in Louisiana? Would this be worthwhile from the aspect of creating jobs in the area? What about employing trappers -- many of whom are out of work now -- to help with the planting program? Why was a program along these lines not considered as part of the President's Economic Stimulus Package?

Answer. Although a good idea, consideration has not been given to summer jobs program, or employing trappers. It may be possible to garner local or state funding to leverage the Federal funds available for this project. Current federal funds do not permit this.

## QUESTIONS SUBMITTED BY SENATOR KOHL

### NONPOINT SOURCE POLLUTION

Question. In regard to Milwaukee's recent problem with cryptosporidium in the water supply, there have been suggestions that one possible source of the pollution could be runoff from livestock farms in the Milwaukee River Watershed. While the state of Wisconsin is recognized as a leader in addressing nonpoint source pollution however still more needs to be done. What is the Soil Conservation Service doing to address agricultural runoff problems?

Answer. The Soil Conservation Service (SCS) works cooperatively with the Wisconsin Department of Natural Resource (DNR) in implementing USDA and DNR conservation and pollution abatement programs. The SCS provides direct technical assistance in the design of animal waste systems and hands-on assistance to private landowners with the installation of these systems. USDA also provides financial assistance to cooperators through the Agricultural Conservation Program, the Water Quality Incentives Program, and SCS Small Watersheds Program.

The Soil Conservation Service also provides job approval authority for state DNR personnel which means that SCS certifies the design for systems installed under the State program. Recently, state legislation, recognizing the magnitude of the animal waste problem, authorized the hiring of seven engineers to work directly with SCS in expediting the implementation of animal waste systems.

The USDA Water Quality Initiative also has one Hydrologic Unit area and one Demonstration Project in Wisconsin, and we provide direct financial and technical assistance to the Farm\*A\*Syst effort, a computer program being developed by the University of Wisconsin. In fiscal year 1993, \$887,000 has been provided to these activities by SCS.

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## QUESTIONS SUBMITTED BY SENATOR COCHRAN

### MISSISSIPPI DELTA WATER SUPPLY STUDY

Question. Last year, SCS initiated the first step in a multi-year feasibility study called the Mississippi Delta Study. It is my understanding that this study is aimed at evaluating and surveying water quality alternatives that can be important to the future of water resource plans for this area and other similar intense agricultural production regions throughout the country.

Do you plan to continue the Mississippi Delta Study and will there be adequate funds available to fully implement Year II of this study at the level outlined in the request from the Mississippi offices of SCS? How much is included in the fiscal year 1994 request for this study?

Answer. The Mississippi Delta Water Supply Study has been approved and would be continued during fiscal year 1994 at approximately the same level as 1993 with funds appropriated for Salaries and Expenses for the Farm Service Agency. The budget estimate for this account, however, does not specifically provide for the increase that would be required to fully fund the second year of the study at the level estimated by the state office.

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## QUESTIONS SUBMITTED BY SENATOR SPECTER

### USE OF GIS IN SCS

Mr. O'Mara, the National Center for Resource Innovations (NCRI) is a Congressionally established, private, non-profit organization which has developed a Geographic Information System (GIS) with the help of the federal government through the Soil Conservation Service. This GIS has proved to assist communities and farmers in assessing the impact farms and urban development can have on the environment. Specifically, the SCS office in Chester, Pennsylvania, is designed to assist farmers and urban planners to better understand the impacts of runoff and efforts to control pollution in the Chesapeake Bay.

Question. What is the Department's understanding of the value these GIS systems and how a GIS System contributes to the goals of the Soil Conservation Service?

Answer. The Soil Conservation Service (SCS) has been one of the agencies pioneering the development and use of GIS technology and digital soil maps. Much of this technology has been developed in partnership with other federal agencies, industry and non-profit companies such as NCRI. We have approximately 250 office locations using the public domain GRASS-GIS. GIS is being used at our state, regional, soil survey and about 125 county field offices.

GIS technology is a valuable planning and analysis tool for natural resource managers, planners, and policy and decision makers. GIS provides an improved visual understanding of resource management alternatives and USDA program benefits. In the past, most of USDA's automation efforts were limited to the use of tabular data or non-geographic information, but most of the information actually managed by SCS and many other land management agencies is geographic natural resource information such as soils, wetlands, land use, highly erodible lands, conservation reserve program lands and many others. Today, SCS field offices still handle most geographic information manually. GIS will give our natural resource specialists the capability to make land management decisions in real time using automated GIS tools to analyze and display multiple geographic resource relationships.

At the field office level, SCS can use GIS to help determine which lands are highly erodible or eligible for the conservation reserve program, identify land areas vulnerable to delivering sediments and pesticides to streams and rivers, deliver more useful soil information to the public and landowners, identify and

prioritize workload, compute soil loss and assist landusers to design environmentally sound conservation treatment systems.

Question. How can the GIS be used to assist the Soil Conservation Service and other agencies at USDA to understand areas of the country where there are problems with ground water protection.

Answer. There are many examples where this technology will significantly change the way we do business. At the state and national level, SCS can use GIS to address ground water protection issues by identifying areas vulnerable to contamination, identify areas which receive heavy pesticide and nutrient loading and identify alternative strategies for protecting sensitive areas.

In 1991-92, SCS led a GIS project as part of a USDA initiative called "Easy Access" to improve USDA services to its customers by making services easier and more accessible to the public and to improve internal efficiencies at the county field office. Participating agencies included SCS, ASCS, FmHA and FCIC. The project demonstrated how these agencies can use GIS to efficiently manage and track producer records, perform instantaneous acreage calculations and farm field reconstitutions, develop computer-based conservation plans and maps for farmers and share resources and client data between agencies for faster and improved program delivery without duplication of database development. The potential exists for expanded use of a GIS system in county offices through implementation of the proposed Farm Service Agency.

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## QUESTIONS SUBMITTED BY SENATOR GORTON

### WATER QUALITY TECHNICAL ASSISTANCE

Question. Within your testimony you state that you provide technical assistance to water quality authorities in the Puget Sound - a part of the National Estuary Program. To whom do you provide this technical assistance? How much money is spent providing this assistance?

Answer. We are providing staff assistance to an interagency task force to assist the local units of Government in developing their nonpoint source watershed plans to reduce nutrient, sediment, and pesticide loadings to the estuary.

We are providing additional resources for the SCS State Office to increase technical assistance at the local level in assisting landowners with implementing systems that improve water quality.

Last year we provided an additional \$650,000 to support assistance in the 12 county watershed area.

Question. Within your testimony you provide an example of how SCS is providing assistance to a rural New York community in complying with the Safe Drinking Water Act (SDWA). What water quality improvements do you hope to make by using SCS funds?



You state that SDWA standards would require this community to spend \$6-8 billion in upgrades in order to provide water to 9.5 million people, this would in turn add \$300 million per year to the community's cost of compliance with the act. Who brought this situation to your attention? What made SCS decide to assist this community in complying with the SDWA? Did the outrageous cost of compliance factor at all into SCS's decision to provide assistance to the community?

Answer. SCS is using its funds to provide technical assistance to agriculture land users in the New York City Water Supply Watershed. This assistance is in the form of conservation planning and the application of conservation practices.

The water quality benefits that will be attained as a result of the application of conservation practices will be the reduction of pathogens, nutrients (nitrogen, phosphorus, and potassium), sediments, pesticides, and herbicides in the water supply reservoirs. The reduction of these pollutants will assist the city of New York in meeting the Safe Drinking Water Act standards.

SCS was aware of the need to provide accelerated technical assistance to the land users in the Watershed before EPA and the State Health Department determined that New York City would have to install a filtration system. In late 1978, SCS prepared a remedial action plan that led to the developing of a model implementation program for the Cannonsville Reservoir which ties into the New York City Water Supply System in Delaware County. The SCS spent approximately \$2,000,000 providing technical assistance in the Cannonsville Reservoir Watershed.

In addition, the SCS knew that there were some problems in the watershed that we had expertise in solving. SCS was in a position to evaluate the watershed and provide alternatives when the City of New York was looking into other options. Compliance costs for the states were not a major factor in SCS's decision to provide assistance to the community. This agency is committed to providing assistance for improving water quality. Most of our technical assistance in this watershed is going to the farmers, however, New York City residents are the recipients of clean water.

Question. You state within your testimony that "USDA believes the use of research, demonstrations, information and education, technical assistance... is a primary reason American agriculture has become the most productive in the world. These approaches are helping us meet current environmental challenges as well."

In my state SCS research is poised to assist Eastern Washington communities in complying with the Clean Air Act. In particular, the problems which Spokane and the Tri-Cities are currently facing in achieving attainment for PM-10 (dust) standards. Are you familiar with the work which SCS in Washington state has done on PM-10 research?

Answer. SCS in Washington state is very much aware of the wind erosion and associated PM-10 emission problems in the drier precipitation zone of the Palouse region. Some 2.7 million acres of nonirrigated cropland are involved.

They have undertaken two major activities related to these issues. The first is the development of a strategic plan to assess the resource base problems, identify possible solutions, evaluate ongoing activities designed to implement solutions, and identify resources required to implement solutions.

The second is specifically directed toward PM-10 issues through SCS participation in the development and implementation of the "Northwest Tri-State Columbia Basin Wind Erosion/PM-10 Project". Groups cooperating on this effort include the Agricultural Research Service, Washington State University, Department of Energy, and Environmental Protection Agency.

The eight objectives of the project will build a database from which the problem can be quantified, and solutions designed. Among the project's objectives and goals are research activities aimed at determining the quantity of PM-10 emissions from both agricultural and nonagricultural sources, and a knowledge of emission transport and deposition.

Of critical significance is the fact that conservation systems designed to meet 1985-90 farm bill erosion control requirements may not be adequate to meet PM-10 emission standards. Such systems are designed to assure long term productivity of the land resource. They were not designed with any particular air quality goal in mind. Also, such systems are mandated on highly erodible land (HEL). Much of the problem includes land that is non-HEL. It will be necessary to modify such systems as well as design new systems for air quality (PM-10) purposes.

Question. I understand Senator Feinstein asked Secretary Espy last week if USDA intended to participate in funding an on-going study on PM-10 (or dust) in Central Valley, California. Although our states have distinct differences, it appears as if we have PM-10 non-attainment in common. In my state Region 10 EPA has begun working with Soil Conservation Service officials to try and help out two Eastern Washington communities -- Spokane and the Tri-Cities -- which are having difficulty reaching attainment for PM-10. It is believed that much of the dust, or PM-10, stems from agricultural lands and agricultural practices.

Are you aware of the research which has been done at Washington State University as part of the Solutions to Environmental and Economic Problems (STEEP II) program, which has provided useful data and information on erosion which could assist the aforementioned communities in determining the origins of their PM-10 problems?

Answer. The STEEP II project includes an effort titled "Conservation Technology for Wind Erosion and Air Quality Prediction and Management."

Concerning wind erosion and PM-10 emissions, the study has the following three objectives:

1. Calibrate and verify predictive methods through a series of complete wind erosion measurements for well documented conditions within the Northwest U.S.

2. Develop data and relationships between agricultural wind erosion and airborne PM-10 particulates measured at off-site downwind locations.
3. Develop and evaluate new conservation tillage and residue management technologies and equipment to reduce agricultural wind erosion and off-site air quality impacts.

The knowledge gained as a result of this research is vital to our ability to understand and quantify the relationship between agricultural field operations, conservation tillage and residue management, the wind erosion process, and PM-10 emissions. We need a good understanding of these relationships to adequately address air quality and PM-10 emissions as they relate to typical agricultural production practices.

Question. I understand an ongoing study on PM-10 in Central Valley, California is scheduled to receive funds from USDA. Are you aware that California and Washington share similar PM-10 problems as they both impact agricultural soils and agricultural practices?

Answer. SCS is aware that both California and Washington have agricultural related PM-10 emission problems. However, the problems are not always similar in source or control. While there is no funding in the current USDA budget to fund the California study you refer to, we have taken steps to refocus some existing resources on this problem.

In both locations the wind erosion process may be a factor in producing PM-10 emissions. The tilling of agricultural land for the production of crops may compound the problem in both locations. To date, neither we nor the Agricultural Research Service (ARS) have identified soil properties that may contribute to PM-10 emissions. SCS in California is working with the ARS wind erosion research facility at Big Spring, Texas to identify such soil properties for two major agricultural soils in the San Joaquin Valley of California.

In the San Joaquin Valley much of the PM-10 problem from agriculture is not directly related to tillage. Dust from farm roads, from a variety of harvest operations (e.g. harvest of nut crops), and various processing operations contribute to the problem. At this time, emission monitoring cannot distinguish between the various sources of emissions.

In Washington, much of the agricultural related problems is on non-highly erodible (NHEL) land and from other sandy soils. PM-10 emissions occur in small grain-fallow rotations during the fall of the fallow year when residue cover may not be adequate to provide protection. Emissions may also occur in the spring of the crop year before small grain has developed sufficient canopy cover.

The SCS Washington State Office indicates that they have some 2.7 million acres of land with silt loam or very fine sandy loam textures, subject to blowing and the production of PM-10 emissions. Since much of this is NHEL land, it does not fall under the erosion control provisions of the 1985-90 farm bills. Conservation systems

are needed on this land, just as they are on highly erodible land, to protect the resource base and meet air quality standards.

### SALMON AND STEELHEAD FISHERY STOCKS

Question. Within your testimony you state that SCS is participating in an effort to assist in the recovery of declining salmon and steelhead stocks. What has this money been spent upon? How much money was appropriated for this program last year? What, in your assessment of this program, has SCS and the program accomplished with these funds? Is funding for this program included within the FY 1994 budget request? If so, how much?

Answer. The Soil Conservation Service has been participating in the salmon recovery activities in the Pacific Northwest and California. In the Pacific Northwest, SCS is part of the Northwest Power Planning Council regional strategy for salmon in the Columbia River Basin. These activities have required approximately two person years each in Oregon, Washington, and Idaho and a full time salmon facilitator position at the West National Technical Center (WNTC) located in Portland, Oregon.

SCS activities at the states and the WNTC include coordination with other agencies and groups; input, review, and comments on various reports and EIS's; and attending and presenting material at various public meetings and hearings. The states and the WNTC also have prepared an assessment and problem statement report on the habitat conditions for Columbia Basin salmonides.

Two new full time positions have been established in each state to work specifically on salmon habitat restoration. These positions include the following:

Idaho--an engineer and engineering technician have been hired to plan and install fish screens and irrigation diversions in the Lemhi model watershed.

Oregon--a conservationist is to be hired to coordinate planning between the Oregon Conservation Commission and the Grande Ronde model watershed. A resource planner is to be hired to plan and apply habitat improvements in the John Day Basin.

Washington--a conservationist is to be hired to coordinate SCS activities in the Asolton Model watershed. A biologist will be obtained on an IPA to assist with the restoration efforts in the model watershed.

One other salmon related activity is a River Basin study to assess resource needs in the Grande Ronde Model watershed in Oregon.

SCS has redirected \$300,000 during FY 1993 to participate in the salmon recovery activities. SCS is currently considering additional funding for this work within the amount requested for the Farm Service Agency in the President's budget.

SCS can represent private land owner interests when dealing with other agencies and groups, and in conjunction with other USDA programs may contribute to salmon habitat improvements.



In California, SCS participates in six multi-agency efforts, working through watershed districts, to provide watershed protection and improve habitat and restore native salmon and steelhead populations. These six efforts are located on the Trinity, Eel, Klamath, North Sacramento, and Tomki Rivers and the Salt and Eel River Delta. SCS work includes erosion control, riparian revegetation, habitat improvement, wetland restoration, technical assistance, and education and information. This work is conducted on a reimbursable basis with funds from the Bureau of Reclamation. In FY 1993, SCS received more than \$1.5 million for this work.

#### SUBCOMMITTEE RECESS

Senator BUMPERS. This concludes today's hearing. The next hearing is going to be held on Thursday, April 29, in this room. At that time, the subcommittee will hear testimony from the Food and Nutrition Service and the Human Nutrition Information Service. We will stand in recess until that date.

[Whereupon, at 11:50 a.m., Tuesday, April 27, the subcommittee was recessed, to reconvene at 10:10 a.m., Thursday, April 29.]



# **AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1994**

**THURSDAY, APRIL 29, 1993**

**U.S. SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,  
Washington, DC.**

The subcommittee met at 10:10 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Dale Bumpers (chairman) presiding.  
Present: Senators Bumpers and Gorton.

## **DEPARTMENT OF AGRICULTURE**

**STATEMENT OF GEORGE BRALEY, ACTING ASSISTANT SECRETARY,  
FOOD AND CONSUMER SERVICES**

**ACCOMPANIED BY STEPHEN B. DEWHURST, BUDGET OFFICER**

## **FOOD AND NUTRITION SERVICE**

**STATEMENT OF ANDREW P. HORNSBY, JR., ACTING ADMINISTRATOR**

## **HUMAN NUTRITION INFORMATION SERVICE**

**STATEMENT OF DAVID RUST, ACTING ADMINISTRATOR**

## **OPENING REMARKS**

Senator BUMPERS. Good morning, today we continue our hearings on the fiscal year 1994 budget for Agriculture, Rural Development and Related Agencies.

Today we will review the budgets for the Food and Nutrition Service, and the Human Nutrition Information Service.

Our witnesses are George Braley, is that correct?

Mr. BRALEY. That is correct, sir.

Senator BUMPERS. Acting Assistant Secretary, Food and Consumer Services; Andrew Hornsby, Jr., Acting Administrator, Food and Nutrition Service; David Rust, Acting Administrator, Human Nutrition Information Service; and Stephen Dewhurst, budget officer, U.S. Department of Agriculture.

As a broad overview, when you include the President's investment proposals, the budget for the Food and Nutrition Service is up by \$4.3 billion. Of that increase, \$3.1 billion is for the Food Stamp Program, some \$132 million for child nutrition, and \$427 million is for the Women, Infants and Children Program.

The Human Nutrition Information Service is requesting an increase of \$2.4 million or a 22-percent increase.

We have statements from each of you that will be made a part of the record in full.

Mr. Braley, I will ask you to make your oral statement, summarizing the budgets for each of the agencies, after which we will entertain questions from the subcommittee for each of the agencies.

Senator Gorton, do you have an opening statement?

Senator GORTON. I have no opening statement, Mr. Chairman.

Senator BUMPERS. Mr. Braley, please proceed.

#### STATEMENT OF GEORGE BRALEY

Mr. BRALEY. Thank you, Mr. Chairman. It is my pleasure to appear before the subcommittee today to discuss the President's budget for food assistance programs of the U.S. Department of Agriculture.

Senator BUMPERS. Excuse me. Would you pull that microphone a little closer to you? All of these microphones, you have to get very close to.

Mr. BRALEY. OK.

Senator BUMPERS. Thank you.

Mr. BRALEY. Thank you. David Rust, the Acting Administrator for Human Nutrition Information Service, is with me today, as is Andrew Hornsby, the Acting Administrator of FNS.

The total appropriation request for fiscal year 1994 exceeds \$42.7 billion, including the reserve for the Food Stamp Program. The Human Nutrition Information Service is requesting \$13.1 million, and the Food and Nutrition Service is requesting the balance.

#### HUMAN NUTRITION INFORMATION SERVICE MISSION

The Human Nutrition Information Service conducts applied research in support of USDA's mission to promote the health and well-being of Americans through improved nutrition. HNIS contributes to this mission through national food consumption surveys, food consumption research, and nutrition education programs.

HNIS accomplishes these tasks by conducting national food intake and food consumption surveys, gathering data on the nutritional composition of foods which it maintains for all to use in the National Nutrient Data Bank, and by providing information about a wide range of nutrition issues.

The work of HNIS assumes new importance in the light of the general public's increasing concern about nutrition, pesticide residues, and the safety of food additives.

The agency provides leadership for USDA in the National Nutrition Monitoring and Related Research Program and in the development and promotion of Dietary Guidelines for Americans. The food guide pyramid visually portrays HNIS' Food Guide, which is designed to help people implement the Dietary Guidelines for Americans in their daily food choices.

The current appropriation supports the Continuing Survey of Food Intakes by Individuals, which is a major national survey designed to track changes in food consumption patterns of individuals, the redesign and maintenance of the National Nutrient Data Bank, the updating of the Dietary Guidelines for Americans, and a wide range of activities authorized under Public Law 101-445,



the National Nutrition Monitoring and Related Research Act of 1990.

#### FOOD AND NUTRITION SERVICE MISSION

The Food and Nutrition Service provides food assistance to low-income people, helping them to achieve adequate and nutritious diets. We estimate that one out every six Americans is served through the 14 programs managed by the Food and Nutrition Service.

The Food Stamp Program is our largest program. It is available to all low-income, low-resource households. In addition, agency programs such as School Lunch and Breakfast and WIC, among many others, target special population groups, such as pregnant and post partum women, infants and school children, native Americans and the elderly, recognizing that these groups are at an especially high nutritional risk.

I note, with a good deal of satisfaction, that the President's budget recommends a funding level for the WIC Program that will allow us to move quickly toward full funding for that vital program by the end of fiscal year 1996.

In addition, as part of his 1994 budget request, President Clinton has proposed to increase the budget authority for the Food Stamp Program by \$603 million in benefit payments.

#### MICKY LELAND CHILDHOOD HUNGER RELIEF ACT

These proposals are similar to legislation to improve and refine the food stamp benefit structure that received strong, bipartisan support in the last Congress. Legislation was submitted earlier this week to implement most of the major provisions of the Mickey Leland Childhood Hunger Relief Act and to implement several proposals to improve conformity of the Food Stamp Program with the Aid to Families With Dependent Children [AFDC] Program.

All of this legislation, which is called the Mickey Leland Hunger Prevention Act, addresses four general themes: Ensuring adequate food assistance, promoting self-sufficiency, simplifying the provision of food assistance, and improving program integrity.

That legislation also proposes to set Food Stamp Program administrative cost matching rates at 50 percent, which would save \$20 million in fiscal year 1994 and approximately \$40 million per year in each of the fiscal years after that.

#### PREPARED STATEMENTS

With your permission, Mr. Rust, Mr. Hornsby, and I will submit additional statements for the record. We are prepared, at this point, to answer any questions that you and the other committee members may have, Mr. Chairman.

[The statements follow:]

#### STATEMENT OF GEORGE BRALEY

Thank you, Mr. chairman. It is my pleasure to appear before this subcommittee to discuss the President's Budget for food assistance programs of the United States Department of Agriculture (USDA). David Rust, Acting Administrator for the Human Nutrition Information Service, and Andrew Hornsby, Acting Administrator for the Food and Nutrition Service, are here with me today.

The total appropriations request for fiscal year 1994 exceeds \$42.7 billion, including the reserve for the Food Stamp Program. The Human Nutrition Information Service requests \$13.1 million and the Food and Nutrition Service requests the balance.

#### HUMAN NUTRITION INFORMATION SERVICE

The Human Nutrition Information Service (HNIS) conducts applied research in support of the USDA's mission to promote the health and well-being of Americans through improved nutrition. HNIS contributes to this mission through national food consumption surveys, food composition research, and nutritional education programs. HNIS accomplishes these tasks by conducting the national food intake and food consumption surveys, gathering data on the nutrition composition of food which it maintains for all to use in the National Nutrient Data Bank, and by providing information about a wide range of nutrition issues. The work of HNIS assumes new importance in light of the general public's increasing concern about nutrition, pesticide residues, and the safety of food additives. The Agency provides leadership for USDA in the National Nutrition Monitoring and Related Research Program and in the development and promotion of the Dietary Guidelines for Americans. The food guide pyramid visually portrays HNIS' "Food Guide" which is designed to help people implement the "Dietary Guidelines for Americans" in their daily food choices.

Current appropriations support the Continuing Survey of Food Intakes by Individuals, a major national survey designed to track changes in food consumption patterns of individuals, the redesign and maintenance of the National Nutrient Data Bank, the updating of the Dietary Guidelines for Americans, and a wide range of activities authorized by Public Law 101-445, the National Nutrition Monitoring and Related Research Act of 1990.

#### FOOD AND NUTRITION SERVICE

The Food and Nutrition Service provides food assistance to low-income people, helping them to achieve adequate and nutritious diets. We estimate that one out of every six Americans is served through the fourteen programs managed by the Food and Nutrition Service. The Food Stamp Program is, of course, our largest program—one which is available to all low-income, low-resource households. In addition, Agency programs such as school lunch and breakfast and WIC among other, target special groups, such as pregnant and post-partum women, infants, school children, Native Americans and the elderly, recognizing that these groups are at high nutritional risk.

I note with great satisfaction that the President recommends a funding level for the WIC program that will allow us to move quickly toward full funding by the end of fiscal year 1996.

In addition, as part of his 1994 budget request, President Clinton has proposed an increase in budget authority of \$603 million in Food Stamp Program benefit payments. These proposals are similar to earlier legislation to improve and refine the food stamp benefit structure that received strong bipartisan support in the last Congress. Legislation will be introduced to implement most of the major provisions of the Mickey Leland Childhood Hunger Relief Act and to implement several proposals to improve conformity of the Food Stamp Program with the Aid to Families with Dependent Children Program. The legislation will address four general themes: ensuring adequate food assistance, promoting self-sufficiency, simplifying the provision of food assistance and improving program integrity.

Legislation will also be proposed to set Food Stamp Program administrative cost matching rates at 50 percent, saving \$20 million in fiscal year 1994.

The 1994 Budget also includes an additional \$40 million for the Emergency Food Assistance Program, and would allow distribution of these benefits through December of 1994.

With your permission, Mr. Rust and Mr. Hornsby will submit statements for the record which provide a more detailed overview of the budget request of these agencies and a review of current operations in the Department's food assistance programs. They will also note issues which we believe to be of interest to this committee, and of course we will be happy to answer your questions about these matters. Thank you.

## STATEMENT OF ANDREW P. HORNSBY

Thank you Mr. Chairman. It is a pleasure to appear before this subcommittee to discuss the fiscal year 1994 budget for food and consumer services administered by the United States Department of Agriculture (USDA).

## THE MISSION OF THE FOOD AND NUTRITION SERVICE

The mission of the Food and Nutrition Service is to alleviate hunger and to safeguard the health and well-being of the Nation through the administration of nutrition education and domestic food assistance programs. The Food and Nutrition Service is the Federal Government's front-line agency providing food assistance to the most needy and vulnerable of our citizens. Established in 1969 to administer the domestic food assistance and nutrition education programs of the USDA, FNS works in partnership with State and local governments to perform its mission.

## THE BUDGET OVERVIEW

For fiscal year 1994, the Food and Nutrition Service requests appropriations of about \$42.7 billion, including Food Stamp Program reserves. This is an increase of about \$4.1 billion above the fiscal year 1993 appropriated level.

## FULL FUNDING FOR WIC

The fiscal year 1994 appropriation request totals \$3.287 billion compared to a base appropriation of \$2.86 billion for fiscal year 1993. This request includes \$350 million as part of the President's investment plan to expand WIC service to all eligible persons by the end of fiscal year 1996. With this funding, WIC's average monthly participation will increase to about 6.4 million, an increase of about 400,000 from the expected fiscal year 1993 average.

According to the Congressional Budget Office (CBO), the cost of fully funding the program in fiscal year 1994 would be \$1 billion over current services. CBO has estimated that at that time 9.6 million persons would be eligible in 1994 and that 7.6 million would apply.

Proposed appropriations language for fiscal year 1994 would allow the Secretary to waive regulations governing the funding allocation formula to ensure that these funds can be used most effectively.

## WIC INFANT FORMULA REBATES

Infant formula rebates negotiated by States and manufacturers are a critical component of the cost effectiveness of the WIC Program. WIC Infant formula rebate revenues for fiscal year 1993 are projected to be over \$800 million and will support nearly 1.3 million participants, about one-fifth of projected WIC participation. Public Law 102-512, the Infant Formula Procurement Act, requires the USDA to conduct bid solicitations for infant formula rebates on behalf of a group of States, if requested to do so. Through expanded multi-State bidding it is expected that additional savings would accrue to the WIC Program. The new law will be implemented as required by April 1993.

## BREASTFEEDING PROMOTION

USDA has traditionally played a significant role in promoting and supporting breastfeeding among WIC participants. Also, in recent years USDA has actively undertaken a number of new initiatives in further support of this important health practice, including sponsorship of a Breastfeeding Promotion Consortium (BPC) of health professional, government and advocacy organizations mutually interested in breastfeeding. At the Consortium's recommendation, USDA has developed a national campaign to promote breastfeeding among the general public and others who influence a woman's decision on how to feed her infant. In addition, FNS has introduced a new WIC food package for women who elect to breastfeed their infants and receive no formula through the program.

## IMMUNIZATION PROMOTION

For the last two years, USDA has worked very closely with the Centers for Disease Control and Prevention (CDC) to increase immunization rates among pre-school-age WIC participants. Numerous activities are occurring at all levels of program operation to promote timely immunization. These various strategies seem to be having a positive effect.



## WIC VENDOR MANAGEMENT

During fiscal year 1988, the Office of the Inspector General (OIG) performed a national audit of WIC State agency vendor monitoring systems. The major findings of the audit dealt with the inadequacy of State agency Automated Data Processing systems to detect and analyze vendor redemption data for probable abuse; weak State agency vendor selection practices; limited Federal staff resources to oversee State agency operations; the need to standardize vendor sanctions nationwide; and the need for improved information sharing on vendor abuse between the Food Stamp and WIC Programs.

In response to these findings, FNS proposed new more clearly defined and stringent regulations. These regulations define State responsibility in the area of vendor selection, training, monitoring, investigative reviews, and vendor sanctions. Over 1,000 comments were received on the proposal. Due to significant public and political reaction to the proposed rulemaking, a new proposal was developed. As WIC moves toward full funding, maintaining high standards for program integrity will become even more important. Therefore, we intend to issue the new, tougher regulations in the Spring of 1993.

## FOOD STAMP PROGRAM

The President's Budget requests a current services appropriation of \$29.5 billion, including reserve funding, to ensure that funds are available to meet increases in program needs. Our projections suggest that: The rate of unemployment will average 6.7 percent in 1994; average monthly program participation will be about 27.2 million in 1994; and the average monthly benefit for 1994 will be \$69.62 per person.

As part of his 1994 budget request, President Clinton has proposed an additional increase of \$603 million in benefit payments. These proposals are similar to earlier legislation to improve and refine the food stamp benefit structure that received strong bipartisan support in the last Congress. Legislation will be introduced to implement most of the major provisions of the Mickey Leland Childhood Hunger Relief Act and to implement several proposals to improve conformity of the Food Stamp Program with the Aid to Families with Dependent Children Program. The legislation will address four general themes: ensuring adequate food assistance, promoting self-sufficiency, simplifying the provision of food assistance and improving program integrity. In addition, the legislation will propose to set administrative cost matching rates at 50 percent, beginning April 1, 1994. The elimination of enhanced federal matching for State anti-fraud, ADP development and Systematic Alien Verification of Eligibility activities will save \$20 million in fiscal year 1994.

## FOOD STAMP PROGRAM ERROR REDUCTION

Last year about 7 percent of food stamps were erroneously issued. We must continue to pursue improved payment accuracy rates as a high priority activity. In fiscal years 1992 and 1993, increased participation has increased the workload while some States are reducing fiscal and personnel resources. In an attempt to assist State efforts to improve payment accuracy, FNS has expanded its program efforts in several significant ways. For example, in fiscal year 1993, FNS will be awarding over \$300,000 in grants to two State agencies to test effective and replicable error reduction procedures. Projects chosen for funding will demonstrate innovative as well as cost effective methods which can be implemented immediately with minimal expense. In addition, as a result of our emphasis on payment accuracy, each of our regional offices is conducting Error Reduction Conferences for the States which provide a forum for the exchange of effective ideas and methods. Finally, through the use of our State Exchange project, FNS supports the interchange between State and local agencies of proven methods to reduce certification and issuance errors.

## SETTLEMENT OF FOOD STAMP LIABILITIES

FNS recently agreed with 26 State agencies to settle \$300 million in outstanding food stamp error rate liabilities for fiscal years 1986-1991. States agreed to invest almost \$45 million in payment accuracy improvements over the next five years. FNS' offer of resolution of these liabilities was made so that Federal and State attention could remain focused on program management rather than on a lengthy court appeals process dealing with 8 to 10 year old claims.

Most of the States affected submitted acceptable investment plans reflecting a broad spectrum of corrective action activities, such as increased client contact in the form of front-end verification, quality assurance reviews, enhanced automation, ex-



panded staff/client training, and targeting of cases with high error probabilities. Two States chose to pay settlement claims rather than investing.

The settlement of these older claims will not compromise future action by FNS to aggressively pursue collection of quality control sanctions.

#### FOOD STAMP TAX OFFSET EXPANSION

We are working now to strengthen the agency's debt collection methods. One method being tested collects the amount of overissued food stamp benefits from Federal income tax refunds of individuals who received such excess benefits because of fraud or providing erroneous information. These individuals are no longer participating in the program. In fiscal year 1992, the first year of the test, we collected more than \$3 million in offsets in the two States involved. Voluntary payments provided an additional \$400,000. Within our current funding we have added seven States for 1993, and collections, both offsets and voluntary payments, are higher than expected. We plan to add another 12 States in 1994, which would bring in a total of 21 States. While the amount of collections to the Federal government are substantial in relation to the cost of the effort, starting up the program is resource intensive. We plan to expand the program to the maximum extent that resources permit. We estimate that program-wide use of tax offset would result in at least \$25 million worth of collections per year. There is currently more than \$600 million in debt for overissued food stamp benefits due to fraud and erroneous information, and a significant portion of this could be collected through Federal income tax offset.

#### FOOD STAMP TRAFFICKING

FNS investigators have focused their efforts on retailers who purchase food stamps for cash at a discount. Additional funding permitted us to increase the number of investigators on board at the beginning of this year from 42 to 50. Therefore, an increase in trafficking investigations is expected. An initiative begun last year to promote the civil prosecution of trafficking retailers by U.S. Attorneys resulted in settlements for over \$250,000 in fines. We have already exceeded this level so far this year and expect this activity to result in over \$1 million in settlements in fiscal year 1993. FNS is also taking actions to expand the activity of States, primarily State and local law enforcement units, against trafficking between recipients and buyers in the streets. We are planning a limited number of pilot projects for fiscal year 1994 to identify effective detection, investigation and sanctioning techniques against street trafficking. FNS carefully coordinates its efforts with the Office of the Inspector General to ensure that trafficking investigations are effectively conducted.

#### RETAILER REAUTHORIZATION

FNS began a major initiative in fiscal year 1992 to collect current information and reauthorize the 213,000 retailers which support the Food Stamp Program. Resources had not been available and data on these stores had not been updated since the early 1980's, resulting in a deterioration of our ability to monitor store compliance. Funding in fiscal years 1992 and 1993 has enabled the Agency to remove stores which had closed or were no longer eligible, collect information on new store owners and obtain current sales information, which is the key to monitoring program compliance. By maintaining current data on stores, limited resources can be targeted to follow up on those which present the greatest threat to program integrity.

#### ELECTRONIC BENEFIT TRANSFER

Electronic Benefit Transfer (EBT) has the potential to reduce benefit diversions, including trafficking. Selling or trading benefits through a third party is expected to be more difficult with EBT because of the need for a system access terminal, the recipient's EBT card and personal identification number to determine the amount of benefits to sell. EBT also enhances control of trafficking by providing an audit trail that supports both detection and prosecution of benefit diversions.

Today, there are approximately 200,000 food stamp households and 3,750 retailers using EBT. Over \$400 million in program benefits will be provided through EBT in fiscal year 1993. Maryland is operating a Statewide EBT system as of April 1993, and there are also EBT systems currently operating in Reading, Pennsylvania, Bernalillo County, New Mexico, Ramsey County, Minnesota, and Dayton, Ohio. An additional 25 States have expressed interest in EBT and are in the process of planning or developing their systems. Federal staff continue to work with States by providing technical assistance and review of system documentation. We are also pursu-

ing a standard system for settlement and reconciliation of EBT payments with the Department of Treasury and the Federal Reserve. A standard settlement system, as currently operated by the Federal Reserve for the food coupon redemption system, would be necessary for large-scale inter-State EBT operations. The President's 1994 Budget requests \$10 million to establish this system.

#### FOOD STAMP PROGRAM INTEGRITY THROUGH INFORMATION MANAGEMENT

The Agency is implementing new automated systems in fiscal year 1993 which are critically important to program and financial integrity. The Store Tracking, Authorization and Redemption Subsystem (STARS) is the automated system which stores all data on retailers and records their redemptions of food stamps through the banking and Federal Reserve systems. The Disqualified Recipient System (DRS) will give States access to a nationwide list of persons who have defrauded the Food Stamp Program. It will help keep these persons off the program for the proper disqualification period, even if they move to a different State.

#### PROGRAM CONFORMITY AND SIMPLIFICATION

We are active on a number of fronts to achieve greater conformity among federal public assistance programs and the Food Stamp Program, as well as to simplify administrative requirements. For example, FNS is providing staff support to the Welfare Simplification and Coordination Advisory Committee. The eleven member Committee has met four times to discuss how interactions between Food Stamps, Aid to Families with Dependent Children (AFDC), Medicaid and public housing programs can be streamlined. A report to Congress and the Federal agencies containing recommendations for change will be released on July 1 of this year.

In addition, FNS has been actively working with the Administration for Children and Families to assist the American Public Welfare Association task force on program coordination in developing recommendations for areas in which consistency in requirements for the AFDC and Food Stamp Programs could be achieved through regulations or legislation.

#### EMPLOYMENT AND TRAINING DEMONSTRATIONS

Demonstration projects testing improved conformity between the Food Stamp Employment and Training Program (E&T) and the Job Opportunities and Basic Skills Program (JOBS) of AFDC are being conducted in 49 project areas. Beginning this year and lasting up to four years, the projects allow States to waive the food stamp E&T regulations and substitute JOBS regulations in their place. Demonstration sites are in the States of Missouri, Georgia, South Dakota, Texas and Hawaii.

#### NUTRITION ASSISTANCE FOR PUERTO RICO

An appropriation of \$1.091 billion is requested for Nutrition Assistance for Puerto Rico, the full amount authorized by the Food, Agriculture, Conservation, and Trade (FACT) Act of 1990. The Program provides cash benefits and administrative funds for a food assistance program tailored to the needs of low-income households in Puerto Rico.

#### CHILD NUTRITION PROGRAMS

For the Child Nutrition Programs, we request an appropriation of \$7.6 billion for fiscal year 1994. These funds are required to meet the payments authorized under current law for subsidies to all children and for providing free and reduced price lunches, breakfasts and snacks to eligible children in schools, child and adult care centers and through Food Service Programs.

#### HEAD START EXPANSION

As part of his proposal to expand Head Start, the President has requested an additional \$115 million for the Child and Adult Care Food Program. The request will cover the increased meals and snacks that will be served to the participants of the proposed new Head Start summer program.

#### IMPACT OF MILK BID-RIGGING ON PROGRAM OPERATIONS

We have been quite concerned about bid-rigging of milk supplies to local schools operating our feeding programs. According to the Department of Justice's (DOJ) Antitrust Division, as of February 1, 1993, 79 criminal cases involving school milk

bid-rigging had been filed against 43 corporations and 55 individuals in the south-east, midwest, and Texas. To date, 37 corporations and 41 individuals have been convicted, and fines imposed total approximately \$35 million. Twenty-three individuals have been sentenced to serve time in jail. Federal civil damages in excess of \$7 million have also been imposed. Thirty-four grand juries in 23 States continue to investigate the milk industry. FNS has worked with DOJ since 1989 on these cases.

However, the actual direct damages resulting from milk bid-rigging fall on local schools. The recovery of these damages and their return to the local schools has been our primary concern in the resolution of these cases. FNS has worked closely with the DOJ to insure that proposed settlement actions presented to us for concurrence take into consideration the recovery of local school milk damages either through separate State action or through the Federal legal actions. Since the return to local schools of those damages only occurs when recovery is through State action, FNS has concurred with a strategy for these cases which reserves the recovery of direct damages to the States and focuses DOJ's efforts on criminal and civil penalty actions. To date, we are aware of State civil actions which have recovered over \$50 million in local school damages from over 20 corporations. State civil actions are also pending against at least 4 other corporations.

FNS will continue to make determinations regarding the necessity for debarment or suspension action against dairies convicted of bid-rigging. In making these determinations, we will consider the present responsibility of the companies and individuals involved, the potential impact of such actions on local program operations, and any other information that may be pertinent to the determination.

#### SCHOOL BREAKFAST PROGRAM START-UP GRANTS

As you know, the Agency has been actively pursuing expansion of the School Breakfast Program through the use of special start-up grants. As one means of encouraging schools to operate breakfast programs, Public Law 101-147 established a five-year series of competitive grants to help defray start-up costs. As envisioned in the statute, these grants cover nonrecurring costs and are targeted to schools attended by a significant number of low income students. In the first four years, \$18 million in grants were awarded for over 2,800 schools with nearly 580,000 needy students in 38 different States. For the fiscal year 1994 grants totalling \$5 million, 38 States submitted proposals totalling over \$7.1 million. We are in the process of evaluating these proposals and expect to make awards later this Spring.

#### HOMELESS DEMONSTRATION PROJECTS

The Homeless Demonstration Project, authorized by Public Law 101-147 to determine the best means for providing food service to homeless children under the age of 6 in emergency shelters, is now in its third year of operation. Since the beginning of the Project, we have solicited sponsors on three separate occasions and now have 37 participating sponsors serving 60 homeless shelters. We are continuing to accept applications and anticipate adding additional shelters to the Project.

#### COMMODITY SUPPLEMENTAL FOOD PROGRAM

For fiscal year 1994, the appropriation request is \$94.5 million. This amount supports caseload allocations of about 373,000 women, infants, children and elderly. For fiscal year 1994, USDA will donate 4 million pounds of nonfat dry milk and 9 million pounds of cheese, as required by the FACT Act of 1990, to supplement food purchased with funds directly appropriated to the program.

#### FOOD DONATIONS PROGRAMS FOR SELECTED GROUPS

An appropriation request of \$244.4 million supports the programs for the Food Distribution Program on Indian Reservations (FDPIR), Nutrition Program for the Elderly (NPE), Commodities for Soup Kitchens, the remaining support for the nuclear affected islands as well as Palau and disaster assistance.

#### THE EMERGENCY FOOD ASSISTANCE PROGRAM

The appropriation request for this program is \$209.455 million, which includes \$163.24 million for the purchase of commodities authorized by law, and \$46.215 million to assist States with administrative expenses.

Appropriations language for the 1994 request will permit USDA to deliver these commodities to States through December of the following fiscal year, thus eliminat-



ing a service gap caused by the need to wait each year for annual appropriations before beginning the purchase cycle.

#### SPECIAL MILK PROGRAM

The President's Budget requests \$20.277 million to continue current law operations of this program in fiscal year 1994.

#### FOOD PROGRAM ADMINISTRATION

Critical to achievement of sound program management are the administrative funds of the Agency. For fiscal year 1994, appropriations of \$105.2 million are requested.

The Food and Nutrition Service's eight appropriations account for over half of the budget authority of the USDA. Over 99 percent of the total appropriations are used for recipient benefit payments or grants to States for their administration of the programs. Food Program Administration represents less than one percent of the total. This appropriation pays for direct federal administrative expenses, including salaries and benefits, travel and information technology. The Food and Nutrition Service employs less than two percent of the people who work for the USDA.

About one-third of FNS employees are stationed at the headquarters office in Alexandria, Virginia. These staff are engaged primarily in program policy and regulatory development, program research and evaluation, Food Stamp Program compliance activity, information resources management, financial management and certain other centralized administrative support functions. The other two-thirds of the staff are located at seven regional offices and 81 field offices nationwide. These personnel work closely with State and local cooperators to implement and monitor the programs, as well as working with retailers to seek authorization to redeem food stamps.

We recognize that all government agencies must take aggressive action to improve management and administrative practices in order to reduce unnecessary spending. We are working very hard to achieve this goal without jeopardizing our mission to safeguard the interests of our program recipients and the taxpayers who pay the bills.

#### FINANCIAL MANAGEMENT INITIATIVES

As you know, the Chief Financial Officers (CFO) Act of 1990 requires federal agencies to perform a number of actions, including: creating integrated financial systems over a five year period; producing annual audited financial statements; developing systematic performance measurement; and improving management reporting. FNS has made significant progress in all of these areas.

In October 1992 we implemented the first phase of a new financial management system which, when completed, will provide a single, integrated data base and accounting system for all FNS accounting and financial reporting operations. This systems development effort, which was begun five years ago, is one of the few in the federal government which has come in on time and on budget. This effort has required—and will require for the next several years—significant resources from our salary and expenses budget, in order to ensure the data integrity, accountability, and reporting capabilities required for major federal programs like the Food Stamp Program and WIC. When compared with the size of the annual, and growing, budget authority for which FNS is responsible, the amount of resources expended and needed in the future for our integrated financial management system represents a very large benefit with an immediate payback.

FNS has produced financial statements for the past six years. FNS issued its first Annual Report for fiscal year 1991 that included the most recent Financial Statements and our first publication of program performance measures as required by the CFO Act. These statements were audited by the General Accounting Office (GAO) in fiscal years 1987 and 1988 and by the USDA in fiscal years 1991 and 1992. We have also improved our financial management operations in a wide number of areas in response both to GAO and OIG audits and to our internal management controls and CFO Act 5-year plan action items. These actions include improved training programs for our financial management personnel, the systems development effort which has resulted so far in implementation of the first phase of our new integrated financial management system, and in improved internal controls and data integrity throughout the agency.



## RESEARCH AND EVALUATION

During fiscal year 1993, FNS expects to spend slightly over \$19 million on program research, demonstrations and evaluation studies. These funds will support ten Congressionally-mandated or requested projects including Competitive Nutrition Education Grants, Resource Tests for Licensed Vehicles, Food Stamp Outreach Grants, WIC Participant and Program Characteristics, a School Breakfast and Lunch Meal Cost Study, a National School Lunch Program (NSLP) School Drop Out Study, a State Administrative Cost Study, Paperwork Reduction Pilot Projects, School Lunch Eligible Nonparticipants, and a Universal Free Lunch Study.

Additional areas of research include EBT, control of food stamp trafficking, reducing barriers to good nutrition among food stamp program participants, use of nutrient standards in the National School Lunch Program (NSLP), assessment of nutritional content of meals in the Child and Adult Care Food Program (CACFP), and the Infant Feeding Project.

We have several significant reports coming out over the next few months. As I mentioned earlier, this year marks the culmination of our research on demonstrations of cash-out of the Food Stamp Program. We released results from the San Diego and Alabama "pure" demonstrations on January 19, 1993. We expect reports very soon from the Washington State Family Independence Program and Alabama ASSETS demonstrations. A report on administrative costs and retailer impacts in San Diego will also be available shortly. In other areas, we expect to release a report on the impacts of EBT in New Mexico and Minnesota in the next few months. Also, we expect to release the results of a study on the nutrient content and dietary impact of the NSLP, as well as a national study on the adult day care component of CACFP.

The fiscal year 1994 budget requests include \$19.8 million, spread among the Food Stamp, Child Nutrition and WIC accounts, to continue program research and evaluation activities for the agency.

That summarizes the fiscal year 1994 budget of the Food and Nutrition Service. I will be happy to answer the Committee's questions.

## STATEMENT OF DAVID A. RUST

Mr. Chairman and Members of the Committee: I am David A. Rust, Acting Administrator for the Human Nutrition Information Service (HNIS). I am pleased to be here today to discuss the Human Nutrition Information Service's current activities and our plans for fiscal year 1994. HNIS is part of the Office of Food and Consumer Services.

## THE MISSION OF THE HUMAN NUTRITION INFORMATION SERVICE

HNIS is, as its name implies, an information service organization responsible for conducting applied research in three broad areas: (1) Food Consumption—what Americans buy and eat (2) Food Composition—the nutrient content of foods and (3) Nutrition Education—helping Americans make informed food choices. These activities enable HNIS to make a direct and ongoing contribution to USDA's overarching mission of ensuring the health and well-being of all Americans through improved nutrition.

In carrying out its mission, HNIS is the lead USDA agency in two critical areas. First the agency, in conjunction with the Department of Health and Human Services (DHHS), is responsible for updating and promoting the Dietary Guidelines for Americans, the most authoritative dietary guidance given by the Federal Government to the American people. By law, the next update of the Dietary Guidelines for Americans will be released in 1995. Second, HNIS coordinates USDA activities under the National Nutrition Monitoring and Related Research Program (NNMRRP), a comprehensive effort spanning all of the nutrition monitoring activities of 22 Federal Departments and Agencies. This wide-ranging activity mandated by P.L. 101-445, The National Nutrition Monitoring and Related Research Act of 1990, is also coordinated with the Department of Health and Human Services.

The information HNIS collects, analyzes and disseminates helps to support the development of sound public policies by other agencies across the Department and the Federal Government. The policy formulation process for food assistance; food labeling; food safety; food formulation, production and marketing; and nutrition education and health promotion programs all benefit from the work done by HNIS.

## HOW THE AGENCY IS DOING WITH 1993 FUNDS

After completing the second quarter, HNIS is operating well within its fiscal year 1993 appropriation. There are two 1993 issues that I would like to bring to the subcommittee's attention:

1. When HNIS formulated its 1993 budget request we expected to spend between \$2.8 and \$3.0 million on the Continuing Survey of Food Intakes by Individuals (CSFII) contract. In September 1992, we entered into a fixed price contract with Westat, Incorporated in Rockville, Maryland to conduct the CSFII 1994-1996. The developmental phase of this survey extends from September 1992 to December 1993. \$1.1 million of fiscal year 1992 funds were used to fund this developmental work. The Office of the General Counsel determined that we could not expend fiscal year 1993 dollars for this contract. The basis of their decision was that fiscal year 1993 dollars were not needed to support this contract (bonafide need). We are therefore asking, as part of the President's budget request for permission to use these funds for the Continuing Survey in fiscal year 1994.

2. In its 1993 budget request, HNIS asked this subcommittee for \$455,000 to cover the cost of moving the agency to a new location. The lease at its current location in Hyattsville, Maryland expires in July 1993 and we now expect to move into new offices in the District of Columbia at about that time. We estimate that no more than \$750,000 will be needed to cover the non-GSA moving expenses. We have 1993 funds sufficient to cover this expense.

## CURRENT ACTIVITIES

*Nutrition Monitoring.*—The agency monitors food intake and the nutrient content of the diets of the American population, and collects and publishes the most comprehensive data on the nutrient composition of foods. Major activities in progress include:

1. Implementing the requirements mandated in Public Law 101-445, the National Nutrition Monitoring and Related Research Act of 1990. The Department of Agriculture is committed to fulfilling the requirements of this legislation. We are working jointly with the Department of Health and Human Services (DHHS), which shares joint responsibility for the National Nutrition Monitoring and Related Research Program. In accordance with Public Law 101-445, Federal coordination of monitoring activities is carried out under the auspices of the Interagency Board for Nutrition Monitoring and Related Research, co-chaired by the USDA Assistant Secretary for Food and Consumer Services and the DHHS Assistant Secretary for Health. The Board consists of 22 Federal agencies that conduct surveys or other research activities or are major users of nutrition monitoring data. One recent accomplishment was the completion of the Ten-Year Comprehensive Plan for Nutrition Monitoring and Related Research. The Ten-Year Plan was formally transmitted to Congress in January 1993 and it addresses the objectives and activities needed over the next decade to meet the goal of a coordinated and comprehensive National Nutrition Monitoring Program. Another requirement of Public Law 101-445 is the establishment of the nine-member National Nutrition Monitoring Advisory Council. The Council was established and held its first meeting in late February, 1992, with two subsequent meetings later in the year. The Council issued its first report to the Secretaries of USDA and DHHS in December 1992. The Council's next meeting is scheduled for May 18-19, 1993.

2. Analyzing and releasing the data from the Continuing Survey of Food Intakes by Individuals (CSFII 1989-1991) including the telephone follow-up Diet and Health Knowledge Survey (DHKS) that assesses consumer perceptions on diet/health and food safety issues. Data tapes from the 1989 survey phase were released in November 1992. The 1990 data are scheduled to be released in May 1993 with the final phase (1991) completed by the end of this calendar year. I would note, Mr. Chairman, that the data collection phase for CSFII 1991 was completed in May 1992. The agency has set a goal of releasing survey data in a more timely manner. You can see a steady improvement in the release of data from CSFII 1989, 1990, 1991 and we are determined to release the data obtained in CSFII 1994-1996 even more efficiently after the completion of each yearly wave of data collection. In addition, HNIS is developing an automated database management and an on-line coding system to be used by future survey contractors to further improve data handling and timeliness.

3. Providing annual estimates of the nutrient content of the total U.S. food supply. This series of publications provides the only source of data on trends, since 1909, of the foods and nutrients available for consumption.

4. Continuing support to the Department's Pesticide Data Program. As one of four USDA agencies working on this program, HNIS is responsible for providing data on



food consumption in a form that will allow the Federal government to assess more accurately the population's exposure to certain pesticide residues. HNIS, with the cooperation of the Environmental Protection Agency and the Food and Drug Administration, is developing a Food Grouping System (FGS). When fully operational the FGS will enable us to convert more than 5,000 mixed food items consumed by individuals back into their basic agricultural components in a form that can be used to determine potential exposure to pesticide residue.

5. Maintaining and continually updating the National Nutrient Data Bank (NNDB) and the Survey Nutrient Data Base. The NNDB is the most comprehensive resource for nutrient composition of foods in the world. Current analytical research on foods is focusing on the major contributors of fat, fatty acids, cholesterol and dietary fiber and for 26 nutrients in the most frequently consumed foods as reported in USDA's food consumption surveys. NHIS also maintains the Survey Nutrient Data Base which is used in the Continuing Survey and also by the National Center for Health Statistics (NCHS), DHHS, for their National Health and Nutrition Examination Survey (NHANES). An HNIS-NCHS interagency work group decides when food items should be added to the Survey Nutrient Data Base or when existing food descriptions should be updated.

6. Expanding our Nutrient Data Bank Electronic Bulletin Board to maintain and improve communications between HNIS and our data users. It is accessed by personal computer and provides up-to-date information about HNIS nutrient data and survey data releases and other relevant topics. The data bank can also be accessed by way of the Internet System, run by the National Science Foundation, which makes the bulletin board available worldwide.

7. Publishing Agriculture Handbook No. 8 Composition of Foods, Raw, Processed, Prepared. Handbook eight is made up of 21 sections to expedite the release of data to the public. Each section contains a table of nutrient data for a major food group. The entire handbook covers a wide range of food products. Ongoing revision is being done either by entire section, or individual food items and the changes are published in annual supplements.

8. Planning for the 1996-1997 Household Food Consumption Survey (HFCS). Early planning and development work with the Bureau of the Census is proceeding on schedule. The process involves input from the users so that the HFCS will be of use to agencies across the government.

*Nutrition Education.*—The agency conducts an ongoing research program to determine the basis for dietary guidance policy and the most effective methods and strategies for improving the dietary status of Americans. Major activities include:

1. Conducting ongoing research to assess the dietary status of the population. The results of this work along with methodological studies have been used to answer inquiries, have been presented at professional meetings and published, and have been used to develop our own educational material. Over the past year, we have conducted studies on problem nutrients, food sources of nutrients, trends in the use of animal and vegetable products, food sufficiency, and food safety issues. Our research helps us and others in the nutrition/health community develop appropriately targeted programs and materials that will help Americans achieve a diet that maintains and even improves their health. A new focus of this work will be on the new food label as a tool for nutrition educators.

2. Establishing the research base for dietary guidance policy. The content of dietary guidance materials is based on research on bridging the gap between current American diets and dietary recommendations. For example, last year we published three reports on the research basis for the Food Guide Pyramid showing that established nutritional goals for vitamins, minerals, fats, calories and other food components could be achieved by following our Food Guide. Menus and recipes, which are used in educational materials to show consumers practical ways of putting dietary guidance into practice, are developed and tested in our foods laboratory.

3. Conducting ongoing research to support development and updating of USDA's four family food plans—thrifty, low-cost, moderate-cost, and liberal. The cost of these food plans is released monthly, and the cost of the thrifty food plan for June of each year is used as the basis for benefits in the Food Stamp Program for the following fiscal year.

4. Conducting research on the most effective methods of communicating dietary guidance to target audiences. To improve dietary behavior, we must give consumers information that is meaningful and useful to them. Various research techniques such as focus groups and in-depth interviews have been used to develop nutrition education materials for older adults, teenagers and adults with low literacy skills. The reactions of certain segments of the population to various graphic illustrations of our Food Guide have been presented and published. Work is ongoing on how best to communicate nutrition education to pregnant teenagers.

5. Developing dietary guidance materials designed to provide consumers with the practical information needed to improve their diets. Examples of publications released or soon to be released by the Agency are as follows:

- “The Food Guide Pyramid”, Home & Garden Bulletin No. 252, 1992—a 32-page booklet for consumers that explains the pyramid.
- “Dietary Guidelines and Your Health: Health Educator’s Teaching Kit,” MP-1490, 1992—a curriculum guide with lesson plans and learning activities on healthy diets for health educators to use in teaching junior and high school students.
- “Making Healthy Food Choices”, Home and Garden Bulletin No. 250,—a 17-page booklet on healthful diets for adults with low literacy skills.
- “Food Facts for Older Adults: Information on How to Use the Dietary Guidelines”, Home and Garden Bulletin No. 251, (to be released in May, 1993)—a 68-page booklet on healthful diets for older adults.

#### ESSENTIAL FISCAL YEAR 1994 PRIORITIES

HNIS has identified the following six priority activities which we are currently planning to pursue in fiscal year 1994:

(1) Continuing Survey of Food Intakes by Individuals (CSFII) 1994–1996—In September 1992, HNIS entered into a complex fixed-price contract with Westat, Incorporated of Rockville, Maryland, to conduct the next three year cycle of the Continuing Survey. The total projected cost of the contract for the work currently planned is fourteen million dollars over four fiscal years. We are currently in the developmental phase of the contract and pilot study activities will begin soon at ten locations across the country. We expect to begin the first full year of data collection in the second quarter of fiscal year 1994. The projected cost of the work to be funded in fiscal year 1994 is \$4.2 million.

As stated earlier, Mr. Chairman, HNIS had planned to commit between 2.8 and 3.0 million dollars to the Continuing Survey in fiscal year 1993. The Office of the General Counsel (OGC) advised us that there was no bonafide need for 1993 funds to be used for this contract. We are, therefore, asking the Congress to authorize the Department to carry over unexpended 1993 funds into the next fiscal year specifically to support the CSFII. Our 1994 budget request is predicated on your granting the Department authority to carry these funds forward.

(2) Planning the Household Food Consumption Survey 1996–1997 (HFCS) (formerly the Nationwide Food Consumption Survey (NFCS)). Every decade since 1936, the U.S. Department of Agriculture has conducted a major NFCS. In previous years, the NFCS gathered data on both household and individual consumption patterns. Now that individual food intake is measured by the Continuing Survey, the HFCS 1996–1997 will focus exclusively on collecting household data.

(3) Continuing support for activities contained in the Ten-Year Comprehensive Plan for Nutrition Monitoring. HNIS is responsible for 41 activities (31 of those are shared responsibilities with another agency) and serves as a contributing or collaborating organization for 15 activities.

(4) Supporting, jointly with DHHS, the updating of the Dietary Guidelines for Americans, due to be completed in 1995.

(5) Using survey data and the developing Food Grouping System to better ascertain levels of exposure to pesticide residues.

(6) Modernizing the Nutrient Data Bank system and expanding food composition research.

#### FISCAL YEAR 1994 BUDGET REQUEST

The HNIS budget request for fiscal year 1994 is \$13,142,000, an increase of \$2,354,000 over the fiscal year 1993 estimate of \$10,788,000. The budget submission includes a request to carry over unexpended 1993 funds into 1994 specifically for the purpose of funding the CSFII 1994–1996.

In fiscal year 1992, with a total budget of \$10.8 million, HNIS was able to fund the developmental phase of CSFII at \$1.1 million. In fiscal year 1994, HNIS, without carryover authority, would have to fund the first full year of data collection (\$4.2 million) from a \$10.9 million budget. The size of the fixed-price contract obligation in fiscal year 1994 highlights the critical need for the Congress to grant us the authority to retain the unused fiscal year 1993 funds for use in fiscal year 1994.

In closing, Mr. Chairman, let me stress once again that HNIS plays an essential role in helping USDA meet its responsibility to promote the health and well-being of all Americans through improved nutrition. It is a small agency with an important mission. Fiscal year 1994 will be a very productive year for the agency and HNIS



is determined to delivery quality work in a timely manner to our customers at USDA, other federal agencies, private sector organizations, and the general public.

Mr. Chairman, I will be happy to answer any questions you or other Committee members may have.

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#### BIOGRAPHICAL SKETCHES

##### GEORGE A. BRALEY

George A. Braley has been serving as Acting Assistant Secretary for Food and Consumer Services, U.S. Department of Agriculture since January 1993. He is responsible for the development of national nutrition and consumer policies. Mr. Braley manages the Food and Nutrition Service which administers the domestic food assistance programs, including the Food Stamp, National School Lunch, Commodity Supplemental Food, and Women, Infants and Children (WIC) Programs. He is also responsible for the Human Nutrition Information Service and the Office of the Consumer Advisor.

From June 1990 to January 1993, Mr. Braley served as Associate Administrator of the Food and Nutrition Service where he helped manage the Nation's food assistance programs.

From 1982 to 1990, Mr. Braley served as Deputy Administrator for Special Nutrition Programs where he had responsibility for managing the Child Nutrition, Food Distribution and WIC programs.

From 1978 to 1982, Mr. Braley worked in the Office of Policy Planning and Evaluation, and from 1972 to 1978 in the Agency's Child Nutrition Division.

Born in Riverdale, Maryland, Mr. Braley currently resides in Oakton, Virginia. He holds a B.A. in Economics from the University of Maryland and a Master's degree in Public Administration from Pennsylvania State University.

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##### ANDREW P. HORNSBY, JR.

Andy Hornsby has served his entire Federal career with the U.S. Department of Agriculture's Food and Nutrition Service in a variety of settings that include the field, two regional offices and FNS' national office. In September 1991, he was appointed Deputy Administrator of the Food Stamp Program after returning from Alabama where he served a 4-plus-year stint as the State's welfare commissioner. He has been serving as Acting Administrator since January 1993.

Hornsby began his career in the Southeast Region where he gained field office experience in Birmingham and Montgomery, Alabama, and also worked as a member of the Atlanta Regional Office food stamp staff.

During his FNS tenure, he has held several key posts involving the Food Stamp Program. He was Director of the Federal Operations Division, which was charged with the responsibility of supervising 240,000 grocery stores authorized to accept food stamps. In 1976, he became chief of the newly organized Compliance Branch, which conducts investigations of stores involved in food stamp violations. Hornsby received the USDA Superior Service Award in 1977 for his outstanding leadership and management of the food stamp Compliance Branch.

In 1980, Hornsby was appointed Deputy Administrator for Regional Operations, which provided liaison between FNS' national office and its seven regional offices. He later became Administrator of the Mid-Atlantic Regional Office in New Jersey, which is responsible for administering FNS programs in States along the Atlantic seaboard and in Puerto Rico. He left the Mid-Atlantic post in 1987 on a temporary intergovernmental personnel assignment to become Alabama's welfare commissioner. During his tenure the State launched a highly regarded welfare cashout pilot project.

Hornsby is a graduate of Auburn University where he majored in business administration.

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##### DAVID A. RUST

David A. Rust, has served as the Associate Administrator of the Human Nutrition Information Service (HNIS) since April 1992.

The Department of Agriculture promotes the health and well-being of Americans through improved nutrition. The Human Nutrition Information Service contributes to this mission through the conduct of national food consumption surveys, food composition research, and nutrition education programs. The Agency plays a primary

role in the National Nutrition Monitoring and Related Research Program and in the development and promotion of the Dietary Guidelines for Americans.

HNIS serves the American public by conducting applied research in food and nutrition—what foods we consume and what nutrients are in those foods, the factors that influence what we eat and how to make informed food choices.

Before coming to USDA, Mr. Rust held a number of positions in the U.S. Department of Health and Human Services, most recently serving in several key positions at the Social Security Administration.

Mr. Rust is a graduate of the Catonsville Community College and Frostburg State University, Maryland, and has done graduate work at Towson State University, Maryland, and at the American University, Washington, D.C. He lives in Rockville, Maryland with his wife and two children.

#### MICKEY LELAND CHILDHOOD HUNGER RELIEF ACT

Senator BUMPERS. Mr. Braley, what is the Mickey Leland Childhood Hunger Relief Act? What does it do?

Mr. BRALEY. That is a piece of legislation that has been worked on in the Agriculture Committees of both the House and Senate over the last 2 years.

The day before yesterday, Secretary Espy signed and sent forward the administration's legislative proposal, which builds on the earlier Mickey Leland legislation. Our bill is called the Mickey Leland Hunger Prevention Act. It takes a number of areas in the Food Stamp Program where we have problems such as benefit imbalances among various target populations.

It really attempts to deal with three major areas of food stamp law right now, to ensure adequate assistance for people by raising the overall benefit structure. It eliminates the shelter cap. That is the cap on shelter deductions that people can have.

It promotes self-sufficiency in the program by allowing participants to accumulate assets at a higher rate than previously, so that they can save money to educate themselves to gain employment.

There is a major integrity section in the bill that deals with improving integrity by tackling such issues as over-issuance of food stamps and trafficking, to shore up the integrity of the program as well.

I would be happy to provide a copy of some materials that go into detail, a section-by-section analysis of the bill, if you would be interested, Mr. Chairman.

[The information follows:]

April 26, 1993

## Direct Spending Provisions of Mickey Leland Hunger Prevention Act

Section	Provision	1994	1995	1996	1997	1998	Total
<u>Ensuring Adequate Food Assistance</u>							
101	Increase basic benefits to 104 percent of the TFP in 1994	290	300	305	310	320	1,525
102	Exclude the earnings of individuals age 18 - 21 who are elementary or secondary students and who live with their parents (implement 7/94)	2	10	10	10	15	47
103	Raise the shelter deduction cap to \$225 in 1994 and remove in 1995	125	570	590	605	620	2,510
104	Exclude earned income tax credits from resources for current participants for one year	a	a	a	a	a	a
105	Exclude entire amount of vendor payments for transitional housing for the homeless (implement 7/94)	1	5	5	5	5	21
106	Exclude GA vendor payments for certain energy or utility expenses (implement 7/94)	1	5	5	5	5	21
107	Eliminate proration of benefits for households off the FSP <1 month (implement 7/94)	5	25	25	25	30	110
108	Increase NAP funding above baseline	20	25	25	25	25	120
<u>Promoting Self-Sufficiency</u>							
201	Exclude non-Title IV educational assistance	5	5	5	5	5	25
202	Exclude child support payments to non-household members from income (implement 7/94)	45	190	205	220	240	900
203	Exclude up to \$50 in child support for all FSP households (implement 7/94)	50	205	215	225	235	930
204	Increase E&T dependent care reimbursements to \$200 for children under age 2 and \$175 for all other children	a	a	a	a	a	a
	Increase dependent care deduction to \$200 for children under age 2 and \$175 for all other dependents	1	1	1	1	1	5
	Allow States the option to increase the E&T participant reimbursement cap for expenses other than dependent care above a minimum of \$25	4	4	4	4	4	20
205	Increase the FMV for automobiles to \$5,500 in 1994 and index thereafter	45	105	120	135	150	555

Section	Provision	1994	1995	1996	1997	1998	Total
206	Exclude from countable resources vehicles necessary to carry fuel or water (implement 7/94)	a	a	a	a	a	a
207	Demonstrate allowing participating households to accumulate up to \$10,000 in assets	a	2	5	5	5	17

#### Simplifying the Provision of Food Assistance

301	Simplify household definition (implement 7/94)	15	65	80	85	85	330
302	Increase the resource limit for HHs with disabled members to \$3,000 (implement 7/94)	2	10	10	10	10	42
303	Assure adequate funding for the FSP	0	0	0	0	0	0

#### Improving Program Integrity

401	Expand the use and disclosure of information provided by retailers	0	0	0	0	0	0
402	Use Federal salary offsets for claims collection	-5	-5	-5	-2	-2	-19
	Allow recoupment for State agency error claims	-10	-10	-10	-10	-10	-50
	Permanently authorize use of Federal tax offsets for all claims	0	0	0	0	0	0
404	Allow the use and disclosure of taxpayer identification numbers provided by retailers	0	0	0	0	0	0
403	Authorize street trafficking demonstrations	0	0	0	0	0	0

#### Improving Food Stamp Program Management

501	Clarify categorical eligibility	0	0	0	0	0	0
502	Amend provision concerning intentional program violations to apply to EBT users	0	0	0	0	0	0
503	Uncap civil money penalties for retailer trafficking in food stamps	a	a	a	a	a	a
504	Permanently disqualify retailers that sell drugs and firearms	0	0	0	0	0	0

#### Federal Funding of Administrative Costs

601	Reduce enhanced match rates for ADP development, anti-fraud activities, and SAVE	-20	-40	-40	-40	-40	-180
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Section	Provision	1994	1995	1996	1997	1998	Total
<u>Other</u>							
	Interaction among provisions	2	10	15	15	15	57
	Printing and processing coupons	2	5	5	5	5	22
<u>Total Cost</u>							
Budget Authority		580	1,487	1,575	1,643	1,723	7,008
Outlays		563	1,457	1,573	1,641	1,721	6,955

Note: Based on January 27, 1993 economic assumptions.

a Cost is less than \$1 million

## LETTER FROM MIKE ESPY, SECRETARY OF AGRICULTURE

Honorable Thomas S. Foley  
Speaker of the House  
of Representatives  
H 204 Capitol  
Washington, D.C. 20510

APR 27 1993

Dear Mr. Speaker:

Enclosed for the consideration of the Congress is a bill to amend the Food Stamp Act of 1977, as amended. This bill is entitled the Mickey Leland Hunger Prevention Act. Also enclosed is a section-by-section analysis explaining the provisions of the bill.

The bill contains provisions to support the President's Fiscal Year 1994 Budget. The President's Budget includes significant increases in benefits provided by the Food Stamp Program. This bill would reduce hunger among poor children, simplify and improve program administration, help assure the integrity of the Food Stamp Program, and help offset the effect of the proposed energy tax on low income households. Most of the benefits provided by this bill would go to low-income families with children.

The cost estimates include costs of interaction among the individual provisions of the bill of \$2 million in Fiscal Year 1994, \$10 million in Fiscal Year 1995, and \$15 million annually in Fiscal Years 1996-1998. The cost estimates also include projected costs for printing and processing the additional quantities of food stamps that would be issued as a result of enactment of the proposals included in the bill. These costs are estimated to be \$2 million in Fiscal Year 1994 and \$5 million annually in Fiscal Years 1995-1998.

Finally, the cost estimates include \$20 million savings for Fiscal Year 1994 and \$40 million savings annually in Fiscal Years 1995-1998 which could be achieved from implementation of the provisions in Title VI of the bill. These provisions would normalize Federal funding at 50 percent for most costs of State agencies' administration of the Food Stamp Program. They will also be included in an Administration bill to eliminate most enhanced Federal funding of States' costs of administering several other programs (e.g., Aid to Families with Dependent Children and Medicaid), where the same

cost savings will be reported. The provisions are also included in this bill to reflect the Department's complete set of proposed changes to the Food Stamp Program as well as its commitment to reduce costs where it is possible to do so without affecting the ability of the Food Stamp Program to meet the food assistance needs of low-income Americans.

The Department has developed this bill in part in the context of many bills introduced in the Senate and House of Representatives in the past few years. Among these bills are S. 2310, introduced by Senators Sasser and Domenici and many others in 1990, and S. 757, introduced by Senator Leahy in 1991. All of these bills and the debate surrounding their consideration culminated this year in the introduction of H.R. 529, the Mickey Leland Childhood Hunger Relief Act. H.R. 529 is intended to ensure adequate food assistance, promote self sufficiency, simplify administration of the Food Stamp Program, and improve program integrity. All of these goals have been pursued by the Department in drafting this legislation; thus, this bill makes use of many of the provisions of H.R. 529.

The enclosed bill includes over one third of the provisions of H.R. 529 without change other than for format. They include an income exclusion for transitional housing vendor payments for homeless people, elimination of proration for former food stamp households that have a break in participation of 30 days or less, increased funding for Puerto Rico's Nutrition Assistance Program, increases in the dependent care deduction cap and the resource limits for households containing disabled members, and a resource exclusion for vehicles necessary to transport fuel and water for households.

Three other provisions drawn from H.R. 529 have been redrafted for reasons of clarity. They are the income exclusions for the energy/utility cost portion of general assistance vendor payments and for up to \$50 in child support received by households, and reimbursements to participants in the Food Stamp Employment and Training Program.

Four other provisions of H.R. 529 have been somewhat revised. The provision of H.R. 529 that would simplify the household definition has been revised to raise the age of children who live with their parents and must be considered members of their parents' households and to clarify the status of minor children who are under the parental control of household members. The provision of H.R. 529 that would exclude legally-obligated child support paid to nonhousehold members has been revised to provide the Department authority to establish the method(s) of determining the amount of the exclusion. The provision of H.R. 529 that would exclude the earnings of high-school students' has been revised to limit the exclusion to high-school students twenty one years old or younger. The provision of H.R. 529 that would eliminate procedures for reducing allotments when there is inadequate funding available for the Food Stamp Program has been revised to eliminate an additional requirement that also became superfluous with open-ended appropriation authority.

The enclosed bill contains three provisions which are similar to provisions in H.R. 529 and the Childhood Hunger Prevention Act introduced by Senators Sasser and Domenici. The provision on increasing maximum benefit levels has been revised so that maximum benefits would rise to 104 percent of the cost of the Thrifty Food Plan on October 1, 1993, and remain at that level. The enclosed bill would remove the cap on the excess shelter expense deduction in Fiscal Year 1995. The enclosed bill would also raise the limit on the fair market value of vehicles that is excluded in determining households' resources to \$5,500 in Fiscal Year 1994. The \$5,500 limit was recommended by President Reagan's Task Force on Food Assistance in 1984.

While the Department shares the goals embodied in H.R. 529 and other bills proposed to improve the Food Stamp Program and better serve the needs of low-income

families with children, and has included provisions in this bill to attain those goals, there are other goals that would be met by provisions of the enclosed legislation.

First, the enclosed bill contains several provisions that would bring the Food Stamp Program into closer conformity with the Aid to Families with Dependent Children program. Increasing conformity between these programs that serve many of the same clients and are administered by the same State agencies, with eligibility and benefit determinations often being made by the same caseworkers, would simplify the application process for both program applicants and State agency employees. Simplifying the application process results in easing access to the program, expediting eligibility determinations, and reducing errors.

Another goal in proposing this legislation is my fervent belief that food stamp recipients must be empowered to better their own lives and, thus, escape their reliance on Federal assistance. Accordingly the enclosed bill includes three provisions that are not included in H.R. 529. First, earned income tax credits (EITCs) would be excluded from the calculation of resources for one year after their receipt by current food stamp recipients; EITCs are currently excluded as income and as resources in the month received and the next month. The current treatment may cause currently participating households to spend their EITCs quickly in order to avoid losing food stamp benefits--a result contrary to prudent public policy. Second, a provision has been added to provide the Department authority to conduct demonstration projects to test permitting participating households to accumulate up to \$10,000 in resources in order to improve the education, training, or employability of household members or to purchase or repair a house for the household's use or to enable the household to relocate. Third, the educational income received by students that enables them to further their education or otherwise become more self-reliant would be excluded for food stamp purposes.

Finally, because improving the integrity and management of the Food Stamp Program are always important goals of the Department, the enclosed bill includes two full titles containing integrity and management proposals. These proposals contain several key provisions of S. 505, the Food Stamp Anti-Fraud Act of 1993, introduced by Senators McConnell, Dole, and Lugar. Enactment of the Administration's proposals would result in more severe penalties on stores that sell drugs and firearms; would increase the maximum penalty that a retailer could receive if found guilty of multiple instances of trafficking; and, would add to the Department's ability to collect claims from households that had overpayments. These proposals coincide with the Department's ongoing efforts in the areas of expanding electronic benefit transfer as an issuance alternative and retaining a strong quality control system.

The effect of this draft bill on the deficit is:

	Fiscal Years				
	(in millions of dollars)				
	1994	1995	1996	1997	1998
	1994-1998				
Outlays	563	1,457	1,573	1,641	1,721
	6,955				

The Omnibus Budget Reconciliation Act of 1990 (OBRA) requires that all revenue and direct spending legislation meet a pay-as-you-go requirement. That is, no such bill should result in an increase in the deficit; and if it does, it will trigger a sequester if not fully offset. Since the Mickey Leland Hunger Prevention Act would increase direct spending, it must be offset.

The President's Fiscal Year 1994 Budget includes several proposals that are subject to the pay-as-you-go requirement. Considered individually, the proposals that increase direct spending or decrease receipts would fail to meet the OBRA requirement.

However, the sum of all of the spending and revenue proposals in the President's Budget would reduce the deficit. Therefore, this proposal should be considered in conjunction with the other proposals in the Fiscal Year 1994 Budget that together meet the OBRA pay-as-you-go requirement.

A similar letter is being sent to the President of the Senate.

The Office of Management and Budget advises that the enactment of this proposed legislation would be in accord with the program of the President.

Sincerely,

  
MIKE ESPY  
Secretary

Enclosures

#### A BILL

To better ensure the adequacy of food assistance for low-income Americans, particularly working families with children; to promote self sufficiency among food stamp recipients; to improve the integrity and management of the Food Stamp Program; and to achieve more consistent cost-sharing arrangements; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Mickey Leland Hunger Prevention Act".

#### TITLE I - ENSURING ADEQUATE FOOD ASSISTANCE

##### MAXIMUM BENEFIT LEVEL

SEC. 101. Section 3(o) of the Food Stamp Act of 1977 (7 U.S.C. 2012(o)) is amended by striking "(4) through" and all that follows through the end of the subsection, and inserting in lieu thereof the following--

"and (4) on October 1, 1993, and each October 1 thereafter, adjust the cost of such diet to reflect 104 percent of the cost



of the thrifty food plan in the preceding June (without regard to adjustments made to such costs in any previous year), as determined by the Secretary, and round the result to the nearest lower dollar increment for each household size."

#### HELPING LOW-INCOME HIGH SCHOOL STUDENTS

SEC. 102. Section 5(d)(7) of the Food Stamp Act of 1977 (7 U.S.C. 2014(d)(7)) is amended by striking "who is a student, and who has not attained his eighteenth birthday" and inserting in lieu thereof "who is an elementary or secondary student, and who is twenty one years of age or younger".

#### FAMILIES WITH HIGH SHELTER EXPENSES

SEC. 103. (a)(1) The fourth sentence of section 5(e) of the Food Stamp Act of 1977 (7 U.S.C. 2014(e)) is amended by striking "Provided. That the amount" and all that follows through "June 30".

(2) The fifth sentence of section 5(e) of the Food Stamp Act of 1977 (7 U.S.C. 2014(e)) is amended by striking "under clause (2) of the preceding sentence".

(b)(1) Effective on the date of enactment of this Act, section 5(e) of the Food Stamp Act of 1977 is amended by inserting after the fourth sentence the following--

"In the 12-month period ending September 30, 1994, such excess shelter expense deduction shall not exceed \$225 a month in the forty-eight contiguous States and the District of Columbia, and shall not exceed, in Alaska, Hawaii, Guam, and the Virgin Islands of the United States, \$391, \$321, \$273, and \$166 a month, respectively.

(2) Effective October 1, 1994, section 5(e) of the Food Stamp Act of 1977 (7 U.S.C. 2014(e)), as amended by this Act, is amended by striking the fifth sentence.

# RESOURCE EXCLUSION FOR EARNED INCOME TAX CREDITS

SEC. 104. Section 5(g)(3) of the Food Stamp Act of 1977 (7 U.S.C. 2014(g)(3)) is amended by adding at the end the following--

"The Secretary shall also exclude from financial resources any earned income tax credits received by any member of the household for a period of twelve months from receipt: Provided. That the individual who receives such credits was participating in the food stamp program at the time the credits were received and that the individual participates continuously during the twelve-month period."

# HOMELESS FAMILIES IN TRANSITIONAL HOUSING

SEC. 105. Section 5(k)(2)(F) of the Food Stamp Act of 1977 (7 U.S.C. 2014(k)(2)(F)) is amended to read as follows--

"(F) housing assistance payments made to a third party on behalf of the household residing in transitional housing for the homeless;"

# HOUSEHOLDS BENEFITING FROM GENERAL ASSISTANCE VENDOR PAYMENTS

SEC. 106. Section 5(k) of the Food Stamp Act of 1977 (7 U.S.C. 2014(k)) is amended by--

(1) striking in paragraph (1)(8) "living expenses" and inserting in lieu thereof the following--

"housing expenses, not including energy or utility-cost assistance,";

(2) striking paragraph (2)(C); and

(3) relettering paragraphs (2)(D), (E), (F), (G), and (H) as (C), (D), (E), (F), and (G), respectively.

# CONTINUING BENEFITS TO ELIGIBLE HOUSEHOLDS

SEC. 107. Section 8(c)(2)(B) of the Food Stamp Act of 1977 (7 U.S.C. 2017(c)(2)(B)) is amended by inserting "of more than one month in" after "following any period".

# IMPROVING THE NUTRITIONAL STATUS OF CHILDREN IN PUERTO RICO

SEC. 108. Section 19(a)(1)(A) of the Food Stamp Act of 1977 (7 U.S.C. 2028(a)(1)(A)) is amended by--

(1) striking "\$1,091,000,000" and inserting in lieu thereof "\$1,111,000,000"; and

(2) striking "\$1,133,000,000" and inserting in lieu thereof "\$1,158,000,000".

## TITLE II - PROMOTING SELF SUFFICIENCY

### INCOME EXCLUSION FOR EDUCATIONAL INCOME

SEC. 201. Section 5 of the Food Stamp Act of 1977 (7 U.S.C. 2014) is amended by--

(1) amending subsection (d)(3) to read as follows--

"(3) all educational loans on which payment is deferred (including any loan origination fees or insurance premiums associated with such loans), grants, scholarships, fellowships, veterans' educational benefits, and the like awarded to a household member enrolled at a recognized institution of post-secondary education, at a school for the handicapped, in a vocational education program, or in a program that provides for completion of a secondary school diploma or obtaining the equivalent thereof,";

(2) striking in subsection (d)(5) ", and no portion" and all that follows through "for living expenses,"; and

(3) striking subsection (k)(3).

### CHILD SUPPORT PAYMENTS TO NON-HOUSEHOLD MEMBERS

SEC. 202. Section 5(d)(6) of the Food Stamp Act of 1977 (7 U.S.C. 2014(d)(6)) is amended by striking the comma at the end and inserting the following--

" : Provided, That child support payments made by a household member to or for a person who is not a member of the household shall be excluded from the income of the household of the person making such payments if such household member was legally obligated to make such payments: Provided further, That the Secretary is authorized to prescribe by regulation the method(s),

which may include calculation on a retrospective basis, that State agencies may use to determine the amount of this exclusion,".

#### CHILD SUPPORT EXCLUSION

SEC. 203. Section 5 of the Food Stamp Act of 1977 (7 U.S.C. 2014) is amended by--

(1) in clause (13) of subsection (d)--

(A) striking "at the option" and all that follows through "subsection (m)," and inserting "(A)"; and

(B) adding at the end the following--

"or (B) the first \$50 of any child support payment in the month received if such payment was made by the absent parent in the month when due,"; and

(2) striking subsection (m).

#### IMPROVING ACCESS TO EMPLOYMENT AND TRAINING ACTIVITIES

SEC. 204. (a) Section 5(e) of the Food Stamp Act of 1977 (7 U.S.C. 2014(e)) is amended in clause (1) of the fourth sentence by--

(1) striking "\$160 a month for each dependent" and inserting in lieu thereof the following--

"\$200 a month for a dependent child under age 2 and \$175 a month for any other dependent"; and

(2) striking ", regardless of the dependent's age,".

(b) (1) Section 6(d)(4)(I)(i)(I) of the Food Stamp Act of 1977 (7 U.S.C. 2015(d)(4)(I)(i)(I)) is amended by striking ", except that" and all that follows through "per month" and inserting in lieu thereof the following--

"(which may include any supportive services provided or reimbursed under the State's plan under subtitle F of title IV of the Social Security Act (42 U.S.C. 681 et seq.)), except that State agencies may establish limits on reimbursements to participants for such costs, which limits may not be less than \$25 per month".



(2) Section 6(d)(4)(I)(i)(II) of the Food Stamp Act of 1977 (7 U.S.C. 2015(d)(4)(I)(i)(II)) is amended to read as follows--

"(II) the actual costs of such dependent care expenses that are determined by the State agency to be necessary for the participation of an individual in the program (other than an individual who is the caretaker relative of a dependent in a family receiving benefits under part A of title IV of the Social Security Act (42 U.S.C. 601 et seq.) in a local area where an employment, training, or education program under title IV of such Act is in operation, or was in operation, on the date of enactment of the Hunger Prevention Act of 1988) up to any limit set by the State agency (which limit shall not be less than the limit for the dependent care deduction under section 5(e)), but in no event shall such payment or reimbursements exceed the applicable local market rate as determined by procedures consistent with any such determination under the Social Security Act. Individuals subject to the program under this paragraph may not be required to participate if dependent costs exceed the limit established by the State agency under this subclause or other actual costs exceed any limit established under subclause (I).".

(c) Section 16(h)(3) of the Food Stamp Act of 1977 (7 U.S.C. 2025(h)(3)) is amended by--

(1) striking "\$25" and all that follows through "dependent care costs)" and inserting in lieu thereof the following--

"the payment made under section 6(d)(4)(I)(i)(I) and subject to any limits the state has established under that section"; and

(2) striking "representing \$160 per month per dependent" and inserting in lieu thereof the following--

"equal to the payment made under section 6(d)(4)(I)(i)(II) but not more than the applicable local market rate".

VEHICLES NEEDED TO SEEK AND CONTINUE EMPLOYMENT AND FOR  
HOUSEHOLD TRANSPORTATION

SEC. 205. Section 5(g)(2) of the Food Stamp Act of 1977 (7 U.S.C. 2014(g)(2)) is amended by striking "\$4,500" and inserting in lieu thereof the following--

"a level set by the Secretary, which shall be \$5,500 through September 30, 1994, and which shall be adjusted from \$5,500 on October 1, 1994, and on each October 1 thereafter, to reflect changes in the Consumer Price Index for All Urban Consumers published by the Bureau of Labor Statistics, for new cars, for the 12-month period ending the preceding June 30, and rounded to the nearest \$50".

VEHICLES NECESSARY TO CARRY FUEL OR WATER

SEC. 206. Section 5(g)(2) of the Food Stamp Act of 1977 (7 U.S.C. 2014(g)(2)) is amended by adding at the end the following--

"The Secretary shall exclude from financial resources the value of a vehicle that a household depends upon to carry fuel for heating or water for home use when such transported fuel or water is the primary source of fuel or water for the household.".

DEMONSTRATION PROJECTS TESTING RESOURCE ACCUMULATION

SEC. 207. Section 17 of the Food Stamp Act of 1977 (7 U.S.C. 2026) is amended by adding at the end the following new subsection--

"(k) The Secretary may conduct, under such terms and conditions as the Secretary may prescribe, for a period not to exceed four years, demonstration projects to test allowing eligible households to accumulate resources up to \$10,000 for later expenditure for a purpose directly related to improving the education, training, or employability (including self employment) of household members, for the purchase of a home for the household, for a change of the household's residence, or for making major repairs to the household's home. The Secretary is authorized to pay up to \$100 million in food stamp benefits to

households participating in such demonstration projects during the period in which such projects are in operation."

### TITLE III - SIMPLIFYING THE PROVISION OF FOOD ASSISTANCE

#### SIMPLIFYING THE HOUSEHOLD DEFINITION FOR HOUSEHOLDS WITH CHILDREN AND OTHERS

SEC. 301. The first sentence of section 3(i) of the Food Stamp Act of 1977 (7 U.S.C. 2012(i)) is amended by--

(1) striking "(2)" and inserting "or (2)";

(2) striking ", or (3) a parent of minor children and that parent's children" and all that follows through "parents and children, or siblings, who live together" and inserting in lieu thereof the following--

" . Spouses who live together, parents and their children 21 years of age or younger (who are not themselves parents living with their children or married living with their spouses) who live together, and children under the age of eighteen who live with and are under the parental control of a person other than their parent, with the exception of foster children, together with the person exercising parental control"; and

(3) striking ", unless one of " and all that follows through "disabled member".

#### RESOURCES OF HOUSEHOLDS WITH DISABLED MEMBERS

SEC. 302. Section 5(g)(1) of the Food Stamp Act of 1977 (7 U.S.C. 2014(g)(1)) is amended by striking "a member who is 60 years of age or older," and inserting in lieu thereof "an elderly or disabled member,".

#### ASSURING ADEQUATE FUNDING FOR THE FOOD STAMP PROGRAM

SEC. 303. Section 18 of the Food Stamp Act of 1977 (7 U.S.C. 2027) is amended by striking the third and fourth sentences of subsection (a)(1) and subsections (b), (c), and (d) and redesignating subsections (e) and (f) as subsections (b) and (c), respectively.

## TITLE IV - IMPROVING PROGRAM INTEGRITY

USE AND DISCLOSURE OF INFORMATION PROVIDED BY RETAIL FOOD STORES  
AND WHOLESALE FOOD CONCERNS

SEC. 401. Section 9(c) of the Food Stamp Act of 1977 (7 U.S.C. 2018(c)) is amended by inserting in the second sentence after "disclosed to and used by" the following--

"State and Federal law enforcement and investigative agencies and".

## ADDITIONAL MEANS OF CLAIMS COLLECTION

SEC. 402. (a) Section 11(e)(8) of the Food Stamp Act of 1977 (7 U.S.C. 2020(e)(8)) is amended by--

(1) striking "and" at the end of clause (A);

(2) striking the semi-colon at the end of clause (B) and inserting in lieu thereof ", and"; and

(3) inserting a new clause (C) as follows--

"(C) such safeguards shall not prevent the use by or disclosure of such information to agencies of the Federal government or the United States Postal Service for purposes of collecting the amount of an overissuance of coupons, as determined under section 13(b) of this Act, that has not been recovered pursuant to section 13(b) of this Act, by offset against refunds of Federal taxes as authorized pursuant to 31 U.S.C. 3720A, or by offset against Federal pay, including but not limited to salaries and pensions, as authorized pursuant to 5 U.S.C. 5514;"

(b) Section 13 of the Food Stamp Act of 1977 (7 U.S.C. 2022) is amended by--

(1) striking in subsection (b)(2)(A) "and claims arising from an error of the State agency"; and

(2) adding the following new subsection at the end thereof--

"(d) The amount of an overissuance of coupons, as determined under subsection (b), that has not been recovered pursuant to



subsection (b) may be offset against refunds of Federal taxes, as authorized pursuant to 31 U.S.C. 3720A, or by offset against Federal pay, including but not limited to salaries and pensions, as authorized by 5 U.S.C. 5514."

DEMONSTRATION PROJECTS TESTING ACTIVITIES DIRECTED AT  
STREET TRAFFICKING IN FOOD STAMPS

SEC. 403. Section 17 of the Food Stamp Act of 1977 (7 U.S.C. 2026) is amended by adding a new subsection (1) at the end thereof--

(1) The Secretary may use up to \$4 million of funds provided in advance in appropriations Acts for projects authorized by this section in Fiscal Year 1994 to conduct projects in which State or local food stamp agencies test innovative ideas for working with State or local law enforcement agencies to investigate and prosecute street trafficking by recipients, buyers, and authorized retail stores.

USE AND DISCLOSURE OF TAXPAYER IDENTIFICATION NUMBERS PROVIDED BY  
RETAIL FOOD STORES AND WHOLESALE FOOD CONCERNS

SEC. 404. (a) Section 205(c)(2)(C) of the Social Security Act (42 U.S.C. 405(c)(2)(C)) is amended by--

(1) striking the second sentence of the second clause (iii);  
(2) inserting immediately before the period at the end of the third sentence of such clause (iii) the following--

" , or other officers and employees of the United States with law enforcement or investigative responsibilities, or State government officers and employees with law enforcement or investigative responsibilities, or State agencies that have the responsibility for administering the Special Supplemental Food Program for Women, Infants and Children"; and

(3) inserting immediately before the period at the end of clause (vii)(I) the following--

" , except as provided in the second clause (iii)".

(b) The second subsection (f) of section 6109 of the Internal Revenue Code of 1986 (26 U.S.C. 6109(f)) is amended by--

(1) striking the second sentence of paragraph (1);

(2) inserting immediately before the period at the end of the first sentence of paragraph (2) the following--

" , or other officers and employees of the United States with law enforcement or investigative responsibilities, or State government officers and employees with law enforcement or investigative responsibilities, or State agencies that have the responsibility for administering the Special Supplemental Food Program for Women, Infants and Children"; and

(3) inserting immediately before the period at the end of the first sentence of paragraph (3) the following--

" , other than as provided in the first sentence of paragraph (2)".

#### TITLE V - IMPROVING FOOD STAMP PROGRAM MANAGEMENT

##### CLARIFICATION OF CATEGORICAL ELIGIBILITY

SEC. 501. Effective on the date of enactment of this Act, section 5 of the Food Stamp Act of 1977 (7 U.S.C. 2014) is amended by--

(1) striking in subsection (a) "and the third sentence of section 3(i)" both times that it appears and inserting in lieu thereof the following--

" , the third sentence of section 3(i), and section 20(f)"; and

(2) striking "II," in subsection (j).

##### TECHNICAL AMENDMENTS RELATED TO ELECTRONIC BENEFIT TRANSFER

SEC. 502. (a) Section 6(b)(1)(B) of the Food Stamp Act of 1977 (7 U.S.C. 2015(b)(1)(B)) is amended by striking "or authorization cards" and inserting in lieu thereof " , authorization cards, or access devices".

(b) Section 12(b)(3)(B) of the Food Stamp Act of 1977 (7 U.S.C. 2021(b)(3)(B)) is amended by--

(1) striking "or authorization cards" and inserting in lieu thereof ", authorization cards, or access devices"; and

(2) striking "or cards" and inserting in lieu thereof ", cards, or devices".

#### UNCAPPED CIVIL MONEY PENALTY FOR TRAFFICKING IN FOOD STAMPS

SEC. 503. Effective on the date of enactment of this Act, section 12(b)(3)(B) of the Food Stamp Act of 1977 (7 U.S.C. 2021(b)(3)(B)) is amended by striking the parenthetical material immediately following "for each violation".

#### PERMANENT DISQUALIFICATION FOR SELLING FIREARMS, AMMUNITION, EXPLOSIVES, OR CONTROLLED SUBSTANCES FOR FOOD STAMPS

SEC. 504. Effective on the date of enactment of this Act, section 12(b)(3)(C) of the Food Stamp Act of 1977 (7 U.S.C. 2021(b)(3)(C)) is amended by striking ", except that the Secretary" and all that follows up to the period at the end thereof.

#### TITLE VI - UNIFORM REIMBURSEMENT RATES

SEC. 601. (a) Section 16 of the Food Stamp Act of 1977 (7 U.S.C. 2025) is amended by--

(1) in subsection (a)--

(A) striking "and (5)" and inserting in lieu thereof "(5)";

(B) inserting immediately preceding ": Provided." the following--

", (6) automated data processing and information retrieval systems subject to the conditions set forth in subsection (g) of this section, (7) food stamp program investigations and prosecutions, and (8) implementing and operating the immigration status verification system under section 1137(d) of the Social Security Act (42 U.S.C. 1320b-7(d))"; and

(C) striking in the proviso the following language--

"authorized to pay each State agency an amount not less than 75 per centum of the costs of State food stamp program investigations and prosecutions, and is further";

(2) in subsection (g)--

(A) striking "an amount equal to 63 percent effective on October 1, 1991, of" and inserting in lieu thereof "the amount specified in subsection (a)(6) of this section for"; and

(B) striking "automatic" and inserting in lieu thereof "automated"; and

(3) repealing subsection (j).".

(b)(1) Except as provided in paragraph (2) of this subsection, the amendments made by this section shall be effective with respect to calendar quarters beginning on or after April 1, 1994.

(2) In the case of a State whose legislature meets biennially, and does not have a regular session scheduled in calendar year 1994, and that demonstrates to the Secretary's satisfaction that there is no mechanism, under its constitution and laws, for appropriating the additional funds required by the amendments made by this section before the next such regular legislative session, the Secretary may delay the effective date of any or all of the paragraphs of subsection (a) until the beginning date of a calendar quarter not later than the first calendar quarter beginning after the close of the first regular session of the State legislature after enactment of this section.

#### TITLE VII - IMPLEMENTATION AND EFFECTIVE DATES

SEC. 701. (a) Except as otherwise provided in this Act, the provisions of this Act shall become effective and be implemented on October 1, 1993.

(b) Sections 102, 105, 106, 107, 202, 203, 206, 301, and 302 of this Act shall become effective and be implemented on July 1, 1994.



SECTION-BY-SECTION SUMMARY  
MICKEY LELAND HUNGER PREVENTION ACT

Title I - Ensuring Adequate Food Assistance

Maximum Benefit Level

Section 101 would amend Section 3(o) of the Food Stamp Act to raise maximum food stamp benefits. Maximum benefits would be raised from the current 103 percent of the cost of the TFP to 104 percent beginning with Fiscal Year 1994. The new percentage would be applied to the cost of the TFP in the preceding June, without regard to previous adjustments, and rounded to the nearest lower dollar amount for each household size. The cost of the provision is estimated to be \$290 million in Fiscal Year 1994, \$300 million in Fiscal Year 1995, \$305 million in Fiscal Year 1996, \$310 million in Fiscal Year 1997, and \$320 million in Fiscal Year 1998.

Helping Low-Income High School Students

Section 102 would amend Section 5(d)(7) of the Food Stamp Act to exclude the earnings of elementary and high school students up through age 21 who are members of larger households when calculating households' food stamp eligibility and benefit levels. Currently, the earnings of students are excluded only if they are under 18 years old, but without regard to whether they are enrolled in high school or college. The proposal would eliminate any exclusion for college students' earnings while assuring that older high school students who live at home could benefit from the exclusion. The provision would be effective July 1, 1994. The cost of the provision is estimated to be \$2 million in Fiscal Year 1994; \$10 million annually in Fiscal Years 1995, 1996, and 1997; and \$15 million in Fiscal Year 1998.

Families with High Shelter Expenses

Section 103 would amend Section 5(e) of the Food Stamp Act to increase the cap on the excess shelter deduction to \$225 in Fiscal Year 1994 and to eliminate the cap in Fiscal Year 1995. The cap for Fiscal Year 1994 would be \$391 for Alaska, \$321 for Hawaii, \$273 for Guam, and \$166 for the Virgin Islands; the cap would be removed in Fiscal Year 1995 for these entities also. Thus, after Fiscal Year 1994, the shelter deduction of all households would be calculated on the same basis; i.e., households that have no elderly or disabled members would have their shelter deduction calculated in the same manner as the shelter deduction for households with elderly/disabled members is currently calculated. The provision is estimated to cost \$125 million in Fiscal Year 1994, \$570 million in Fiscal Year 1995, \$590 million in Fiscal Year 1996, \$605 million in Fiscal Year 1997, and \$620 million in Fiscal Year 1998.

Resource Exclusion for Earned Income Tax Credits

Section 104 would amend Section 5(g) of the Food Stamp Act to exclude all earned income tax credits (EITCs) received by households from consideration as resources for one year following their receipt. The exclusion would apply if the households were participating in the Food Stamp Program when they received the EITCs and do not have a break in participation during the one-year period. If a break in a household's participation occurs, any amount of an EITC remaining would be counted as a resource upon reapplication. For all other households, the current arrangement would apply--EITCs are excluded in the month received and the next month, but if households have retained them after

the second month, they are counted as resources. It is unwise public policy to induce food stamp families to spend their EITCs quickly, rather than to encourage their efforts to save the payments for worthwhile purposes that can lead to eventual self sufficiency. The provision would be effective October 1, 1993, and is estimated to cost less than \$1 million annually.

#### Homeless Families in Transitional Housing

Section 105 would amend Section 5(k) of the Food Stamp Act to exclude as income the full amount of vendor payments for transitional housing for homeless households. Currently, a portion of such payments equivalent to 50 percent of the State's maximum shelter allowance for its Aid to Families with Dependent Children (AFDC) program is included as income in those States that calculate shelter allowances for AFDC. The provision would be effective July 1, 1994, and is estimated to cost \$1 million in Fiscal Year 1994 and \$5 million annually in Fiscal Years 1995-1998.

#### Households Benefiting from General Assistance Vendor Payments

Section 106 would amend Section 5(k) of the Food Stamp Act to amend the treatment as income of certain general assistance (GA) and comparable basic assistance payments provided in the form of vendor payments. Under the proposal, such assistance would be included when calculating income if the assistance was provided for housing expenses, but portions of the assistance provided for energy or utility costs would be excluded. Currently, GA and comparable assistance is included if provided in the form of vendor payments and intended for living expenses. The provision would be effective on July 1, 1994, and is estimated to cost \$1 million in Fiscal Year 1994 and \$5 million annually in Fiscal Years 1995-1998.

#### Continuing Benefits to Eligible Households

Section 107 would amend Section 8(c) of the Food Stamp Act to amend the definition of "initial month" so that former food stamp households would not be subject to prorating unless the break in their food stamp participation is for more than one month. The provision would be effective July 1, 1994, and is estimated to cost \$5 million in Fiscal Year 1994, \$25 million annually in Fiscal Years 1995-1997, and \$30 million in Fiscal Year 1998.

#### Improving the Nutritional Status of Children in Puerto Rico

Section 108 would amend Section 19(a) of the Food Stamp Act to increase funding for the Nutrition Assistance Program in Puerto Rico above the baseline by \$20 million in Fiscal Year 1994 and \$25 million for Fiscal Year 1995. This would increase the baseline for Fiscal Years 1996-1998 by \$25 million.

### Title II - Promoting Self Sufficiency

#### Income Exclusion for Educational Income

Section 201 would amend Section 5(d)(3), (d)(5), and (k) of the Food Stamp Act to amend the existing exclusion for educational income to make its treatment consistent within the Food Stamp Program. Currently, much educational income (loans, grants, scholarships, fellowships, veterans educational benefits, etc.) is excluded. Frequently, the income exclusions for educational income have been dictated by amendments to statutes other than the Food Stamp Act; e.g., P.L. 102-325, the Higher Education Amendments of 1992. However, there are some instances where educational income is counted as available to food stamp

participants when determining their eligibility and amount of benefits. Whether educational income is included or excluded depends on a variety of factors such as the source of the income, the use to which it is put, the type of institution the student attends, and whether or not it is earmarked by the educational institution for specified purposes.

The proposal would simplify the Food Stamp Program's overly complex treatment of educational income. This complexity is particularly frustrating in that the Food Stamp Program's treatment of educational income affects less than 6 percent of food stamp households. The proposal would end the complexity as well as provide increased conformity with the Aid to Families with Dependent Children (AFDC) program at an estimated cost of \$5 million annually in Fiscal Years 1994-98. The proposal would retain current provisions restricting the eligibility of post-secondary students. The amendment to Section 5(k) of the Act is a conforming amendment to delete a provision including as income certain educational assistance provided in the form of vendor payments.

#### Child Support Payments to Non-Household Members

Section 202 would amend Section 5(d)(6) of the Food Stamp Act to provide an income exclusion for payments household members make to support children outside their households. The exclusion would be limited to child support payments that are legally obligated. The proposal authorizes the Department to promulgate regulations prescribing appropriate methods for State agencies to determine the amount of the exclusion; one method could be averaging the amounts of child support payments made in several prior months in which income was similar. The provision would be effective July 1, 1994, and is estimated to cost \$45 million in Fiscal Year 1994, \$190 million in Fiscal Year 1995, \$205 million in Fiscal Year 1996, \$220 million in Fiscal Year 1997, and \$240 million in Fiscal Year 1998.

#### Child Support Exclusion

Section 203 would amend Section 5(d)(13) and (m) to provide an income exclusion for certain child support payments received by households. First, AFDC households would have the same child support excluded for food stamp purposes that they have excluded for the AFDC program. Second, other households would have up to \$50 received each month excluded and if payments made on a timely basis are received in a subsequent month, up to \$50 of those payments would also be excluded. The proposal would also delete the current provision which permits State agencies to exclude up to \$50 in child support monthly only if the State agency pays the Federal Government the cost of resulting increased benefits. The provision would be effective July 1, 1994, and is estimated to cost \$50 million in Fiscal Year 1994, \$205 million in Fiscal Year 1995, \$215 million in Fiscal Year 1996, \$225 million in Fiscal Year 1997, and \$235 million in Fiscal Year 1998.

#### Improving Access to Employment and Training Activities

Section 204 would amend Sections 5(e), 6(d), and 16(h) of the Food Stamp Act to make several changes in the dependent care deduction cap for all households and reimbursements to participants in food stamp employment and training (E&T) programs. First, the proposal would raise the cap on the dependent care deduction from \$160 a month for each dependent to \$200 a month for children under 2 years old and \$175 a month for other dependents. These limits correspond to those of the AFDC program. State agencies could retain the \$200 dependent care cap



until recertification for children who reach their second birthdays during certification periods. The proposal would also raise the limit on reimbursements to E&T participants for dependent care from \$160 to the applicable local market rate determined using AFDC's procedures, but no less than the cap on the dependent care deduction (\$200 for children under 2 years old and \$175 for other dependents).

The proposal would make two clarifications related to State agencies' reimbursements to E&T participants for work-related costs, other than dependent care. First, the proposal would clarify that State agencies can reimburse any work-related, non-dependent care costs for E&T participants that they reimburse for AFDC's Job Opportunities and Basic Skills Training Program (JOBS). Second, the proposal would clarify that State agencies can set the reimbursement limit for work-related, non-dependent care costs at any level, but not less than \$25 per month. While this is current policy, State agencies have been reluctant to set a reimbursement limit higher than \$25 since the Federal payment to them is capped at \$12.50. Thus, the proposal would also remove the cap on Federal funding of State agencies' costs for reimbursing participants for work-related, non-dependent care expenses. The combination of the two provisions would permit State agencies to set the same reimbursement limit for E&T work-related, non-dependent care costs that they have for their JOBS participants and receive 50 percent Federal funding of their costs. The proposal also contains a technical change which would exempt from participation in E&T activities individuals whose work-related costs exceed reimbursements. This is current regulatory policy; however, the Food Stamp Act only exempts individuals whose dependent care costs exceed reimbursements for dependent care.

Finally, the proposal would revise the Department's funding of State agencies' costs of E&T reimbursements. First, the Department would pay 50 percent of State agencies' costs of reimbursing E&T participants for their dependent care costs as revised by the proposal. Second, as previously described, the cap on Federal funding of State agencies' costs of reimbursing E&T participants' work-related, non-dependent care expenses would be removed. The cap is currently 50 percent of actual reimbursements that do not exceed \$25 a month. With the removal of this cap, State agencies that invest their own funds to provide more realistic reimbursements for such costs can be assured of Federal funding at the 50 percent level.

The provisions would be effective October 1, 1993, and are estimated to cost \$5 million annually in Fiscal Years 1994-1998.

#### Vehicles Needed to Seek and Continue Employment and for Household Transportation

Section 205 would amend Section 5(g) of the Food Stamp Act to revise the threshold for the fair market value of vehicles owned by households that is excluded in calculating households' total resources. The proposal would revise the threshold to \$5,500 for Fiscal Year 1994. Beginning in Fiscal Year 1995, the \$5,500 threshold would be indexed annually on October 1 to reflect changes in the Consumer Price Index for all Urban Consumers published by the Bureau of Labor Statistics, for new cars, for the 12-month period ending the preceding June 30, and rounded to the nearest \$50. The current threshold, which was set in 1977, is \$4,500. The provision is estimated to cost \$45 million in Fiscal Year 1994, \$105 million in Fiscal Year 1995, \$120 million in Fiscal Year 1996, \$135 million in Fiscal Year 1997, and \$150 million in Fiscal Year 1998.



### Vehicles Necessary to Carry Fuel or Water

Section 206 would amend Section 5(g) of the Food Stamp Act to exclude from financial resources the value of vehicles used by households to transport fuel for heating or water when that fuel or water is the primary source for households. The provision would be effective July 1, 1994, and is estimated to cost less than \$1 million annually in Fiscal Years 1994-1998.

### Demonstration Projects Testing Resource Accumulation

Section 207 would amend Section 17 of the Food Stamp Act to authorize the Department to conduct, under terms and conditions prescribed by the Department, demonstration projects allowing eligible households to accumulate up to \$10,000 in resources and remain eligible to receive food stamps. The households that could accumulate resources under the demonstration projects would have to establish separate accounts designated for the accumulation of resources for a specific goal that could provide self-sufficiency. Such goals would be limited to improving the education, training, or employability of household members; buying a house for the household's use; changing the household's residence; or making major household repairs. The proposal would limit to \$100 million the amount that the Department could expend on benefits in the demonstration projects during the four years they would operate. The provision is estimated to cost \$2 million in Fiscal Year 1995, and \$5 million annually in Fiscal Years 1996-1998.

### Title III - Simplifying the Provision of Food Assistance

#### Simplifying the Household Definition for Households with Children and Others

Section 301 would amend Section 3(i) of the Food Stamp Act to delete from the household definition the requirements that siblings who live together and parents who live with their adult children must be considered as one household even if they do not purchase and prepare meals together. The proposal would replace these requirements with similar requirements related to spouses who live together; parents who live with their own children who are 21 years old or younger and who do not live with their own spouses or children; and minors, excluding foster children, who live under the parental control of household members. These requirements are intended to simplify the task of eligibility workers in determining household composition. The provision would be effective July 1, 1994, and is estimated to cost \$15 million in Fiscal Year 1994, \$65 million in Fiscal Year 1995, \$80 million in Fiscal Year 1996, and \$85 million annually in Fiscal Years 1997 and 1998.

#### Resources of Households with Disabled Members

Section 302 would amend Section 5(g) of the Food Stamp Act to increase the resource limit for households containing disabled persons. Currently, such households have the same resource limit as most other households--\$2,000. The proposal would place households with disabled members in the higher resource category --\$3,000--along with households containing at least one elderly person per household. The provision would be effective July 1, 1994, and is estimated to cost \$2 million in Fiscal Year 1994 and \$10 million annually in Fiscal Years 1995-1998.

#### Assuring Adequate Funding for the Food Stamp Program

Section 303 would amend Section 18 of the Food Stamp Act to delete the provisions that authorize the reduction of benefits to

households, prescribe the means of doing so, and require monthly reports from the Department to Congressional Committees about monthly and cumulative expenditures and notification to the committees if it is determined that food stamp funding is insufficient. These provisions are no longer necessary since P.L. 101-624, the Food, Agriculture, Conservation, and Trade Act of 1990, provided Congress authority to appropriate sufficient funds for the Food Stamp Program.

#### Title IV - Improving Program Integrity

##### Use and Disclosure of Information Provided by Retail Food Stores and Wholesale Food Concerns

Section 401 would amend Section 9(c) of the Food Stamp Act to expand the use and disclosure of information provided by retail food stores and wholesale food concerns, including sales and food stamp redemption information, to State and Federal law enforcement and investigative agencies. Use and disclosure of this information is currently restricted to persons directly connected with the administration and enforcement of the Food Stamp Program, as well as State agencies that administer the Special Supplemental Food Program for Women, Infants and Children (WIC).

The expanded use and disclosure of such information would enhance the Department's own enforcement and investigative activity by allowing the Department to match and verify information in its files with information in the files of other law enforcement and investigative agencies that may provide evidence of violations of programs administered by the Food and Nutrition Service (FNS). The Department also would be able to provide information to other agencies that might reveal vital leads and evidence that would enhance the outcome of their investigations and subsequent prosecutions. For example, the Department could provide the Internal Revenue Service (IRS) and State taxing authorities reported sales and food stamp redemption data for firms that are suspected of tax fraud. The Department could also share its information with investigative agencies, such as the Federal Bureau of Investigation (FBI), the Secret Service, the Drug Enforcement Administration (DEA), and the Financial Crimes Enforcement Network (FinCEN) of the Department of the Treasury.

##### Additional Means of Claims Collection

Section 402 would amend Sections 11(e)(8) and 13 of the Food Stamp Act to expand alternatives for collecting claims against households for overissued food stamp benefits. The proposal would clarify existing law and establish permanent authority relating to Federal income tax refund offsets and establish permanent authority to collect food stamp claims by offsetting Federal salaries and other Federal payments.

The amendment to Section 11(e)(8) would make an exception to the current disclosure restrictions so that information obtained from former food stamp recipients could be provided to certain Federal agencies for specific purposes. The purpose of providing the information to Federal agencies is to collect overpayments from Federal income tax refunds, Federal salaries, and other Federal payments. The Federal agencies involved are the IRS, the United States Postal Service, and the Department of Defense.

Section 13 would be amended to expand claims collection alternatives. First, State agencies would be required to collect claims arising from State agency errors from participating households through allotment reduction unless the household

elects other means of repayment. Allotment reductions would be limited to 10 percent of the monthly allotment or \$10 a month if that would result in more rapid collection. Second, the proposal would authorize collection by Federal salary offset for all types of claims due from former recipients. Collection of these debts from Federal tax refunds due individuals no longer participating in the Food Stamp Program has been started under the authority of Section 17(b) of the Food Stamp Act. The IRS requires that debts referred for collection from tax refunds do not include any debts which could be collected from Federal salaries. To comply with this requirement, the Department also plans to test salary offset. The proposal would enable the Department to make these collection methods permanent for food stamp claims. The Department estimates that the total impact of these changes would be savings of \$15 million annually during Fiscal Years 1994-1996 and \$12 million annually in Fiscal Years 1997 and 1998.

#### Demonstration Projects Testing Activities Directed at Street Trafficking in Food Stamps

Section 403 would amend Section 17 of the Food Stamp Act to authorize the Department to conduct several demonstration projects related to the serious problem of street trafficking, particularly the sale of food stamps by recipients for cash at a discount in the street. Because both the Department's and State agencies' investigative resources are insufficient to pursue street trafficking, it is essential to enlist State and local law enforcement agencies in this struggle. Therefore, the Department will seek several State or local food stamp agencies who have innovative ideas for working with State or local law enforcement agencies to investigate street trafficking at issuance sites or other high trafficking areas and address (through prosecution or disqualification) trafficking by recipients, buyers, and authorized retail food stores. Conducting these projects is essential if the Department is to begin making headway against street trafficking, especially the sale of food stamps for cash outside issuance offices which is becoming increasingly more blatant and drawing more public attention and criticism. This activity is extremely damaging, diverting large amounts of food stamp benefits from their intended purpose, affecting the nutritional well being of recipients, and eroding public support for the Food Stamp Program.

The Department would be authorized to spend up to \$4 million of funds provided in advance in appropriations Acts for demonstration projects conducted under Section 17 of the Food Stamp Act for these street trafficking demonstration projects. The projects are to be funded at 100 percent from October 1, 1993-September 30, 1994--with any subsequent period necessary funded at the level generally available for anti-fraud activities.

#### Use and Disclosure of Taxpayer Identification Numbers Provided by Retail Food Stores and Wholesale Food Concerns

Section 404 would amend Section 205(c) of the Social Security Act and Section 6109(f) of the Internal Revenue Code of 1986 to expand the use and disclosure of taxpayer identification numbers (Social Security Numbers and Employer Identification Numbers) collected from retail food stores and wholesale food concerns that are authorized to accept and redeem food stamps. Use of these numbers is currently restricted to the maintenance of a list of names of individuals and firms sanctioned or convicted of program violations under Sections 12 and 15 of the Food Stamp Act.



The expanded use and disclosure of such identifying numbers would enhance the Department's own enforcement and investigative activity by allowing the Department to match and verify information in its files with information in the files of other law enforcement and investigative agencies that may provide evidence of violations of programs administered by the FNS. The Department would also be able to provide such identifying numbers to other law enforcement and investigative agencies to facilitate their ability to cross-check or match data and increase the likelihood of their detecting criminal or other illegal activity. Identification numbers offer much stronger confirmation of identity than do names and addresses alone. Other agencies with which identifying numbers could be shared include State agencies administering the WIC Program, State taxing authorities, State law enforcement agencies, the IRS, the FBI, the Secret Service, Fincen, and the DEA. Verification of the authenticity of identifying numbers may also be required with agencies such as the Social Security Administration.

## Title V - Improving Food Stamp Program Management

### Clarification of Categorical Eligibility

Section 501 would amend Sections 5(a) and (j) of the Food Stamp Act to correct and improve the provisions on categorical eligibility for the Food Stamp Program for recipients of AFDC; Supplemental Security Income (SSI); benefits under the SSI substitute program in the Territories (under Titles I, X, XIV, and XVI of the Social Security Act); and certain general assistance.

First, the proposal would add to the exceptions for categorical eligibility households disqualified from the Food Stamp Program for failing to comply with the requirements of a food stamp workfare program. This is the only program disqualification provision that has not been listed as an exception from categorical eligibility for participants in any of the other assistance programs. There is no logical reason for this omission. It is not equitable for households disqualified for failing to meet workfare requirements to be permitted to participate under a categorical eligibility provision while all other disqualified individuals/households, including those disqualified for noncompliance with other work requirements, are not categorically eligible.

Second, the proposal would correct a description of the SSI-substitute program in the Territories by removing a reference to Title II of the Social Security Act in Section 5(j). The reference to Title II was inadvertently added by Section 905 of the Food, Agriculture, Conservation, and Trade Act Amendments of 1991.

### Technical Amendments Related to Electronic Benefit Transfer

Section 502 would amend Sections 6(b) and 12(b) of the Food Stamp Act to make technical corrections. Most Food Stamp Act references to food coupons and authorization cards have previously been amended to include references to the access devices used for electronic benefit transfer. This proposal would make similar amendments to provisions concerning disqualifications of individuals for intentional program violations and disqualifications of/imposition of civil money penalties (CMPs) against retail food stores for trafficking.



### Uncapped Civil Money Penalty for Trafficking in Food Stamps

Section 503 would amend Section 12(b) of the Food Stamp Act to remove the provision which caps a trafficking CMP at \$40,000 in a 2-year period. The cap was included in a P.L. 101-624 provision that permitted CMPs in lieu of permanent disqualification in certain limited circumstances. The statutory limit on monetary penalties for trafficking is currently \$20,000 per trafficking violation; thus, it is highly likely that a firm would reach the \$40,000 cap on the first offense. The current cap is flawed since, hypothetically, after a firm paid \$40,000 for the first offense, further trafficking could occur without any additional sanction for trafficking during the next 2 years. Removing the \$40,000 cap would make the trafficking CMP more equitable and consistent with the CMP for recipient hardship, which has a \$10,000 per violation statutory limit with no cap, and which is assessed for much less serious offenses than trafficking. The provision would also provide a more effective incentive for owners and managers of authorized firms to institute programs that deter their employees from committing trafficking violations. The provision is estimated to cost less than \$1 million annually in Fiscal Years 1994-1998.

### Permanent Disqualification for Selling Firearms, Ammunition, Explosives, or Controlled Substances for Food Stamps

Section 504 would amend Section 12(b) of the Food Stamp Act to disallow a CMP in lieu of disqualification for selling firearms, ammunition, explosives, or controlled substances in exchange for food stamps. The sale of such items for food stamps is among the most serious violations possible and the penalty for such violations should act as a strong deterrent. To allow retailers who have been found selling firearms, ammunition, explosives, or controlled substances for food stamps to pay a CMP and continue to participate in the program would send a strong signal to other potential violators that the Food Stamp Program is an easy target for abuse. The provision would call for permanent disqualification of the retailer for the first offense with no possibility of ever being reauthorized to accept and redeem food stamps.

### Title VI - Uniform Reimbursement Rates

Section 601 would amend Section 16(a), (g), and (j) of the Food Stamp Act to revise the authority under which Federal funding is provided by the Department for certain costs State agencies incur in their administration of the Food Stamp Program. While the Department normally funds 50 percent of a State agency's food stamp administrative costs, there are several areas where enhanced Federal funding is provided. The proposal would make uniform Federal funding for most food stamp administrative costs. Enhanced funding would remain available for carrying out the employment and training program, administering the Food Stamp Program on Indian reservations, and as an incentive for improving payment accuracy by State agencies. Eliminating other instances of enhanced Federal funding is estimated to save approximately \$20 million in Fiscal Year 1994, when it would be in effect for six months, and \$40 million annually thereafter.

Enhanced funding for planning, designing, developing, or installing automated data processing and information retrieval systems would be reduced from the current level of 63 percent to 50 percent. The proposal would also reduce Federal funding for State agencies' costs of investigating and prosecuting food stamp fraud from the current 75 percent to 50 percent. There are other incentives in the Food Stamp Act to encourage State agencies'

anti-fraud activities. For example, State agencies retain 25 percent of any amounts successfully recovered from fraud losses. Finally, the proposal would reduce Federal funding for State agencies' use of the Systematic Alien Verification for Entitlement program administered by the Immigration and Naturalization Service from 100 percent to the normal 50 percent.

Finally, the proposal would authorize the Secretary to grant "hardship waivers" delaying the April 1, 1994, effective date for State agencies whose legislatures are not scheduled to meet in Calendar Year 1994 and that demonstrate that their Constitutions and laws do not provide a mechanism for raising the additional State funds that this bill would require before the next regular legislative session.

#### Implementation and Effective Dates

Section 701 would provide that, except as otherwise specified, the provisions of the bill would become effective on October 1, 1993. Provisions whose implementation would require more significant adjustments for State agencies would not be effective until July 1, 1994.

#### FUNDING THE LELAND RELIEF ACT

Senator BUMPERS. Has that bill been passed? Is it on the books now?

Mr. BRALEY. It is not on the books. It was planned for inclusion in the President's budget. It was submitted to the Congress 2 days ago. There was a hearing yesterday in the House Agriculture Committee to begin their process for considering this bill as part of the reconciliation process.

Senator BUMPERS. Has the President asked for money for that bill this year?

Mr. BRALEY. Yes, he has, Mr. Chairman.

Senator BUMPERS. How much did he ask for?

Mr. BRALEY. \$603 million in funding above the baseline for the program.

Senator BUMPERS. Above the baseline for which program?

Mr. BRALEY. For the Food Stamp Program, Mr. Chairman.

Senator BUMPERS. You know, this food pyramid may be a good idea. I am not sure this legislation is. I still do not quite understand what it does that we are not already doing. We do our best now to make sure children and people do not fall through the cracks, do we not, when it comes to hunger?

Mr. BRALEY. We certainly do a lot, but there are areas that have been identified, again, through the hearing process and through input from a lot of interest groups and so on who monitor hunger. I will let Mr. Hornsby comment a little bit further on some of the specific provisions of that bill, if I may, Mr. Chairman.

Mr. HORNSBY. Mr. Chairman, as Mr. Braley has said, we propose to increase the basic benefits from 103 to 104 percent of the Thrifty Food Plan. That is one of the big cost items.

One other particular item that States have lobbied us for years to do something about is the vehicle limit. Right now, if a family has a vehicle that is worth more than \$4,500, that portion which is worth over \$4,500, is counted against the resource limit. We

have been told by State and local agencies that this limit inhibits participation.

The vehicle limit was set back in the late seventies.

Senator BUMPERS. Does that relate to that song called "Welfare Cadillac"?

Mr. HORNSBY. Yes, sir; that was the old Welfare Cadillac Amendment back in the late seventies. The limit never has gone up. There are probably some legitimate cases where a vehicle has kept working, needy families off the program. As you know, working people do need transportation.

Mr. BRALEY. I would mention, too, in that vein, that as far back as 1984, a task force of the Reagan administration, established to study the Food Stamp Program and all of the food assistance programs, recommended raising that vehicle limit from \$4,500 to \$5,500, because it was keeping people out of the program who could really benefit, and who really were not driving around in Cadillacs.

#### FOOD STAMP ELIGIBILITY

Senator BUMPERS. What is the criteria for food stamps? Is it a percentage of poverty level?

Mr. HORNSBY. Yes, sir; it is based on family income and the number of people in the family. There is a cutoff level for different family sizes, based on income that is available to the family to buy food.

Senator BUMPERS. Is it universal? It is nationally applied?

Mr. HORNSBY. Yes, sir.

Senator BUMPERS. The States do not have anything to do with setting that, do they?

Mr. HORNSBY. No, sir.

Senator BUMPERS. What is that level right now?

Mr. HORNSBY. It is at 130 percent of the poverty level.

Senator BUMPERS. Do you normally use a family of four as the criteria?

Mr. HORNSBY. Yes, sir; a family of four.

Senator BUMPERS. Right.

Mr. HORNSBY. So the gross monthly income limit for a family of four is \$1,512.

Senator BUMPERS. How much?

Mr. HORNSBY. \$1,512. The net monthly income limit is \$1,163 for a family of four. There are some deductions that are allowed.

Senator BUMPERS. Is this escalating? In other words, if you have more income than that, you just get fewer food stamps?

Mr. HORNSBY. No; you would get cut off if you exceed the income limit.

Senator BUMPERS. But you get a full allotment, if you are below that.

Mr. HORNSBY. No, sir; you can get an allotment, depending upon your income. If you have no income, you get the full allotment of food stamps. The amount of food stamps you get depends on your income or the amount of money you have available for food.

Senator BUMPERS. So, if I made \$1,200 a month—now, when you talk about gross and net, how do you distinguish between those two?

Mr. HORNSBY. The gross is your total income before deductions.



Senator BUMPERS. What is the net?

Mr. HORNSBY. For a family of four, the net is \$1,163 a month.

Senator BUMPERS. But my question is: What is the definition of net?

Mr. BRALEY. That is your income after all of the deductions for which you qualify have been taken. For example, if you have excess shelter costs, those can be deducted. There are a series of deductions that are allowed for food stamp households.

Senator BUMPERS. If your automobile is over \$4,500, that goes into it.

Mr. BRALEY. Well, that, actually, is another test. That counts against your asset limit. You currently cannot have liquid assets of more than \$2,000 for most households, \$3,000 for households that contain an elderly member.

One of the things we are proposing in the legislation we were talking about earlier, would be to raise that \$3,000 limit also for households with a disabled member.

#### FOOD STAMP PARTICIPATION INCREASE

Senator BUMPERS. Mr. Hornsby, what do you think the cause is for an increase of 200,000 people a month on the food stamp rolls?

Mr. HORNSBY. We have looked at that and studied it carefully. I do not know that we have a real definitive answer at the present time. The economy, we think, is the primary reason, although we see other evidence that the increase is the heaviest in some of the large States with immigrant populations—Texas, California, New York, Florida. We have had heavy increases in those States, but by and large, it seems to be driven by the economy. We think that is the primary reason.

Senator BUMPERS. Have you ever done a study on the disparity of wealth in this country, of the poor getting poorer, and more people falling into the poor category?

We know that the number of the children in this country in poverty continues to increase. And that went on even during the lush eighties.

Mr. BRALEY. Mr. Chairman, I am not aware of any studies on this that we have done in the Food and Nutrition Service. I am familiar, too, with some of the poverty statistics, as you indicate, that show that the rate of childhood poverty in this country has continued to grow.

That is one of the reasons we want to pass a new food stamp bill that would really target a lot of the benefits to households with children to try to deal with some of those issues.

#### FOOD STAMP ERROR RATE

Senator BUMPERS. What is your so-called error rate right now in food stamps?

Mr. HORNSBY. The overpayment error rate for 1991 is a little under 7 percent. That is one of our great concerns, Mr. Chairman. Despite having 10 years of drop in the error rate, we see the total amount of food stamps overissued is increasing.

We have, on the other hand, an underpayment rate of 2.35 percent to families that are eligible for food stamps. So it made a com-



bination of 9.3 percent error rate, but with the increases in issuance, of course, the dollar volume is substantial.

#### FOOD STAMP ADMINISTRATIVE COSTS

Senator BUMPERS. What are the administrative costs of the Food Stamp Program?

Mr. BRALEY. There are two categories of administrative costs: Some fairly moderate amount of Federal dollars are spent on food stamp administration by the Food and Nutrition Service and then a larger amount is spent for State and local level administration.

The cost of State administration is shared between the Federal Government and State governments.

Mr. HORNSBY. The Federal share of State administrative expenses is \$1.6 billion per year.

Senator BUMPERS. How much?

Mr. HORNSBY. \$1.6 billion.

Senator BUMPERS. What percentage is that, just roughly?

Mr. HORNSBY. Then what percentage would that be of the total Food Stamp Program?

Senator BUMPERS. Let us see, if your budget is, what, \$27 billion?

Mr. HORNSBY. All right. Ten percent would be \$2.7 billion, so it would be about—

Mr. BRALEY. Six percent.

Mr. HORNSBY. Five to six percent.

Senator BUMPERS. That is not bad.

Mr. HORNSBY. Now, that is the Federal share of administrative costs. As George Braley said, there is the State share of costs on top of that.

Senator BUMPERS. Is the administration of the Food Stamp Program—that is done usually by the State social services divisions, is it not?

Mr. HORNSBY. State welfare agencies, or human service agencies in every State administer the program.

Senator BUMPERS. And that is a mix of State and Federal contributions to that—

Mr. HORNSBY. The benefits are 100 percent Federal, Mr. Chairman.

Senator BUMPERS. But the administration is shared by the Federal and the State, is it not?

Mr. HORNSBY. Yes, sir.

Senator BUMPERS. On what basis?

Mr. HORNSBY. About 50–50. There are some provisions for which we pay a little greater than 50 percent, but, for example, staffing, which is the primary cost of administering the Food Stamp Program, personnel costs are reimbursed by us at 50 percent.

#### WIC COVERAGE

Senator BUMPERS. What percentage of the pregnant women in this country are going to be served in 1994 under the WIC Program, if we gave you everything you are asking for?

Mr. BRALEY. Mr. Chairman, we have been reaching a high percentage of eligible pregnant women. And we can do better than that with the funding requested in 1994—upward of 90 percent.

The challenge at this point is to try to reach those women earlier in their pregnancies. One of the things that we have found is that many women do not find their way into the WIC Program until the second trimester. Roughly, about one-half of them come in during their second trimester, and about one-quarter not until the last 3 months of their pregnancy.

So we are doing a fairly good job, although we can do better, at getting the percentage of women actually in WIC at some time during their pregnancy. We really need to make special efforts, and States should be making them also, to locate those women and get them into the WIC Program earlier, when the food assistance and nutrition education can do the most good.

Senator BUMPERS. You do not turn anybody down, do you? Do you turn down women who come in for assistance?

Mr. BRALEY. Each State really receives a grant to operate their WIC Program. I do not think there are many circumstances where pregnant women would be turned away if they qualified for the program based on income and nutritional risk.

Certainly, older children and some of the lower priority categories are currently being turned away, because resources are not adequate to serve that entire population, but I think it would be a very rare case that a pregnant woman who would qualify would be turned away.

Senator BUMPERS. So our problem in not covering everybody is that a lot of women do not seek assistance and a lot of people do not know about it, is that it?

Mr. BRALEY. I think that is really it. It is a matter of finding a way to reach these women early on and bring them into the program.

#### WIC RESULTS

I think it is important, too, for us to try to keep older children on the program. The benefits of the program have probably been most dramatic in terms of pregnancy outcome with regard to higher birth weight and infant mortality rate decreases and lower hospitalization costs associated with higher birth weight babies, but we have also had some pretty positive results on early childhood development, in terms of cognitive development and those types of things.

We are certainly eager to move toward full funding, so that all of the eligible participants, including the children up to their fifth birthday, can be served throughout the country.

Senator BUMPERS. The evidence is overwhelming, is it not, that women who get this prenatal care, their children—the chances of a defective baby are greatly reduced, are they not?

Mr. BRALEY. That is absolutely right, Mr. Chairman. It not only is good policy from a humanitarian and caring standpoint, it is a good investment as well. It avoids hospitalization costs, Medicaid costs.

Study after study, in a number of States, have shown that three or four to one benefit cost ratios result from participation in the WIC Program by pregnant women.

#### IMMUNIZATION

Senator BUMPERS. Let me ask you one other line of questions here, and then I will defer to Senator Gorton. You mention in your testimony that USDA has been working with the Centers for Disease Control to increase immunization rates among preschool children.

And as you know, there are a lot of ongoing programs to try to get all of the children in this country immunized by the age of 2. What are you doing to promote immunizations?

Mr. BRALEY. Mr. Chairman, the WIC Program really is probably the best program available, in terms of getting young women in when they are pregnant and keeping their children in the health care system.

We have often referred to it as a gateway program. The food benefit that is available is really a carrot that brings people into the health care system.

We have worked closely with the Centers for Disease Control and Prevention to try to make WIC a part of the immunization effort.

There are many WIC clinics throughout the country, where you come in for WIC services and your child can be immunized right at the WIC clinic. At other places that do not have the facilities to manage that, there is a referral mechanism in place.

We have been a part of CDC's task force and work effort to try to improve immunization rates from the outset. We think WIC can perform an important role, primarily, of getting people into the health care system and referred for immunizations.

Senator BUMPERS. Mr. Braley, you are probably not the right person to ask. I am also on the Labor, Health and Human Services Subcommittee of Appropriations, where we will hold a hearing on immunizations very shortly.

And of course, the Centers for Disease Control people will be there to testify, but something that they have—what shall I say—sort of tentatively propose is—and let me just give you an illustration before I tell you what it is.

Last Saturday or Saturday before last, there were 6,000 volunteers in Atlanta who spread all over that city, knocking on doors, trying to locate children who were not immunized. They got the door slammed in their face a lot of times.

You probably saw that story in the Post or maybe you did not, but anyway, the story was about this youngster who came to the door. He went back and his mother said she would not come to the door and so on. In the inner cities of this country, that is a very common occurrence.

As you perhaps know, my wife has been boldly engaged in this. She and Rosalyn Carter really are the ones that started this tracking system. I think she still is. I have not seen her in a month. This is Childhood Immunization Month.

And she is—just got in last night. It is the first time I have seen her in 3 weeks, but anyway, she gives me all of this information. And she and I clash occasionally.



I am not sure—you know, she agrees with the President, the Government buying all of the vaccine and giving shots free. I am not sure I agree with that, not because of the money, but because I think it is highly, marginally efficient. But anyway, we argue about those things, but my question is this—and this is one place where she and I really clash.

Normally, I defer to her, because she has been in this now for 20 years. What is wrong with saying to some of these women who get food stamps or are on the WIC Program, "We are going to give you 30 days to immunize your child and if you do not, you are going to get cut off"?

If they do not do it, maybe you give them another 30 days. And at the end of that time, you really fulfill the threat.

Now, that drives people like Marian Wright-Adelman right up the wall, when you suggest things like that. But, you know—I do not intend to be harsh about this, but you see, one of the reasons that it is important that all children are immunized is because all you have to have is a small pool of susceptibles and you have got an epidemic on your hands.

So when people deliberately do not have their children immunized, it is one thing for them—to threaten—you know, bother their own children, but they are also threatening the community.

So why should we not use that stick approach? To, obviously, the people who are not immunizing their children, who would become—it would become a ritual with them, once we got that program in place, I believe.

Mr. BRALEY. The pros and cons of that have been discussed to some extent. In prior years, I know we have been involved in discussions of whether we ought to make childhood immunization a criterion for a child being eligible in the WIC Program.

One of the issues is that the WIC Program itself provides important benefits to those children. If their parents are being irresponsible with regard to immunizations, should you deny that child food that is important to their growth and development?

It really is a difficult moral question. And I think it is an open one that can be debated some more.

So far, we have taken the position that benefits will not be denied on the basis of a child not being immunized, because the WIC benefit itself is very important.

Senator BUMPERS. Well, I will tell you one thing, I do not think just furnishing free vaccines is a solution. Betty and Tipper Gore were in Boston yesterday with the mayor. And they go to the clinics. And the television cameras were all there. And that would have been on the evening news in Boston last evening. And that is the end of it.

I mean, I think the visibility and the publicity is good. It sort of makes a few people aware that—maybe their children are immunized, but the people who are not immunizing their children last night—I do not want to suggest that what they are doing is not meaningful; it is. It keeps the thing visual. And it keeps it on the front burner, but there is a hardcore out there that you are just simply not going to get in that way.

Mr. BRALEY. Mr. Chairman, I think the WIC Program can help get those people into the system, so that they, at least, get re-



minded or told of the consequences of not having their children immunized, since we do have such a high rate of coverage among pregnant women and infants who are from low-income families and they are probably some of the hardest families to reach.

I think we are doing a good job of getting them into the system, so they can be informed about this issue, but that is as far as our role has gone.

#### SUMMER FOOD SERVICE PROGRAM

Senator BUMPERS. Senator Gorton.

Senator GORTON. Thank you very much, Mr. Chairman. And I am not sure which of you will have the answer to this question, so perhaps all of you can listen. The Washington State Food Policy Action Center helps administer summer food programs in my State.

And, obviously, there are similar groups in each of the other States. And I asked them to tell me whether or not they had any particular difficulties in meeting Federal requirements in administering the program. And they came up with two concerns that I would like to share with you and get your comments on.

I am told that the Summer Food Service Program regulations prevent food from being removed from the site of an individual program. Many of the people who administer these programs constantly witness food going to waste, obviously, because of these regulations. And they find it frustrating when, of course, they are there to feed hungry kids.

In light of the recent E-coli outbreak in my State and renewed attention to food safety, perhaps there are some rationale and some good reasons for these regulations, and as a consequence it may result in an even stricter enforcement of the laws. The people who are working in this program, and who obviously do not want to undercut the well-being of the children in the program, ask the question as to why nonperishable or only semiperishable food, like cookies and apples and things of that sort, should not be allowed out of the site by kids. Because I think each of us is familiar with the way kids operate—putting something in their pocket to eat it later and the like.

Can any of you comment on the reason for that regulation and whether there is a consideration of any change?

Mr. BRALEY. I will comment on that, Senator. I might want to expand a little bit in the record, after I have had some additional information from the people at the Food and Nutrition Service.

Some of the concern about offsite consumption of food in the Summer Food Service Program goes back to some health and safety issues, as you mentioned, concerning food that could spoil being taken away and consumed later, and someone becoming ill from that.

But a second concern goes back to some abuses that were noted in the program in the seventies. Meals were taken home by the children for consumption by their family members.

The meals are intended for children. We want the eligible children to consume the meals and not have the meals become a carry-out for the whole family. There were some fairly significant abuses in the early days of the program.

I believe that requirement came about for those two reasons: Health and safety concerns, and the issue of people for whom the program was not intended actually consuming the food.

Senator GORTON. That is a logical answer to the question. I do not know whether there is a way to let kids be kids without allowing that kind of misuse of the program. We will pass that answer back. And if you all think about it and perhaps ask for some advice from the people who are in the field running the programs, maybe we could come up with a more flexible answer.

Mr. BRALEY. We will do that, Senator.

#### SUMMER FOOD SERVICE—SITE ELIGIBILITY

Senator GORTON. The second one is this: I understand that in order for a Summer Food Service site to qualify as an open site, 50 percent or more of the children must be from low-income families.

There are a number of sites in Washington State, and I am sure elsewhere, that are being denied eligibility because they only get to a 48-percent threshold.

I understand that the National School Breakfast Program has a 40-percent eligibility requirement.

Is there any reason for that difference? It is possible or would it be prohibitively expensive to change the open site requirement from 50 to 45 or even to 40? Why are there two different numbers?

Mr. BRALEY. Senator, one of the things that you need to keep in mind in looking at this issue is that in a summer program situation, you are usually talking about a walk-in program, where kids from the community come and have recreational or other activities, and then receive meals as part of that program.

There is not an individual means test or anything like that. Nobody takes an application from that child's parents in order to qualify them for the meals. That is in contrast with a school situation or a day care situation, where applications are actually taken and if a child's family has too high an income, the meal receives a much lower subsidy than one served to a child from a lower income family which gets a much higher subsidy.

In the Summer Food Service Program, we found that we cannot make that work very well, because it is a less controlled environment. So, in law, the 50-percent limit was set. You base it on free and reduced price meal applications from schools in that community. If over 50 percent of the children are eligible, then you can have a site in that community.

There have been discussions about lowering that threshold which would make more areas eligible. It would also increase the costs of the program.

We are going to be, over the next year, reauthorizing all of the child nutrition programs. I expect that the people you talk to in your State, as well as other people involved with this program, will raise that issue.

Changing the limit will be discussed and debated, in terms of whether it would be an appropriate way to spend additional funds in the program but the 50-percent limit is not magic. It is just a number that was arrived at, at onetime and put in the statute. It is a reasonable number, but other numbers could be talked about.

Senator GORTON. What you are saying is—I take it that, if, in fact, we did lower the Summer Food Service Program to 40, does that raise the number of people who do not really need it and therefore taking some portion of the program and these funds would be better utilized elsewhere.

Mr. BRALEY. That is the issue, Senator. If you have a community that is not predominantly low-income and you are providing free meals that are receiving subsidies of close to \$2 per meal, is it appropriate for children from higher income families, large numbers of them, to receive that type of subsidy? And that is really the tradeoff.

Senator GORTON. Well, this, obviously, will be examined again. And I thank you for two very thoughtful answers.

Mr. BRALEY. Thank you.

Senator GORTON. Thank you, Mr. Chairman.

#### HUNGER IN AMERICA

Senator BUMPERS. Thank you, Senator Gorton. Mr. Braley, a recent Associated Press article cited a report on hunger that says that nearly 30 million Americans do not get enough to eat. And that the biggest increase has been in the Midwest, including rural areas.

Statistics cited include a Missouri rural crisis center that operates 10 food pantries, served 25,000 people in 1992, nearly twice the number as 2 years earlier. Indiana experienced a 59-percent increase, and Missouri a 44-percent increase in food stamp recipients.

Now, do you think that—the real core of the question is: Do we have 30 million people in this country that are not getting enough to eat?

Mr. BRALEY. The poverty numbers, you know, are in that range, but the food stamp participation, the people who are receiving food stamps, is very close to that figure now. We have about 26.9 million people. We set another record in February for food stamp participation.

I think the programs we have are responsive to most of the identified need, in terms of people being able to avail themselves of food assistance programs.

We are proposing the legislation we talked about a little bit earlier to try to improve the adequacy of the benefits in the Food Stamp Program, so that the people that receive it actually are getting enough to eat, in terms of food assistance. That is the reason for the increased request in food stamps.

The Food Stamp Program is the major way that we reach low-income people in this country with food assistance. The other programs reach specifically targeted populations.

Senator BUMPERS. There may not be anything new about that. I do not know. It just shocked me when I saw it. And I think somebody may have just put together the number of food stamp recipients and suggested that those people are not getting enough to eat. Of course, that is the whole purpose of the Food Stamp Program.

Mr. BRALEY. The purpose of the program is to help them get an adequate diet.



## ADEQUACY OF FOOD STAMP BENEFITS

Senator BUMPERS. If I were eligible for the maximum—if I had a wife and two children and I were eligible for the maximum number of food stamps, is it your belief that my family would be reasonably well-fed?

Mr. BRALEY. Let me comment and then maybe Mr. Hornsby would want to elaborate a little bit. I think it is fair to say that you could be well-fed, if you were educated and knew how to shop wisely.

Senator BUMPERS. Let us assume I know a little about dietary habits and how to prepare food and that is—you know, how to spend money on food and so on. Would that be enough to make sure I was fed—my children were fed adequately?

Mr. BRALEY. If you had the knowledge and the time to shop and prepare food according to the Thrifty Food Plan, in general, you should be able to.

One of the provisions of the bill that we are offering recognizes the fact that during the course of the year, due to food price inflation, the benefit that you have at the beginning of the year is eroded. The benefit is enough to buy the Thrifty Food Plan, which is the conceptual basis for the Food Stamp Program, at the beginning of the year but due to inflation during the course of the year, that benefit tends to erode.

Over the last 10 or 15 years, the purchasing power of the Thrifty Food Plan has declined by about 4 percent during the course of the year. We are proposing to raise the basic benefit level from 103 percent of the Thrifty Food Plan to 104 percent.

Another issue I think that is important to note is if you had no income and got the entire benefit in the form of food stamps, you could shop wisely and get an adequate diet. Many people, of course, if they have some source of income, receive a smaller amount of food stamp coupons. In order for them to have an adequate diet, they have to supplement their food stamps with some of their cash income.

A lot of families have other pressures on their resources. They cannot devote the full amount to their food. That creates some of the situations that you alluded to, where people run out of food stamps before the end of the month and rely on food pantries and food banks and other organizations like that to tide them over.

Trying to shore-up some of the benefits in the Food Stamp Program, we think, can help alleviate that.

Senator BUMPERS. What is the maximum dollar amount that anybody is entitled to in food stamps?

Mr. HORNSBY. \$370, Mr. Chairman, for a family of four. And, of course, it goes up as your family size increases.

Senator BUMPERS. How much income would I be allowed to have and still get that maximum?

Mr. BRALEY. You would have to be at zero net income.

Senator BUMPERS. So you would not have any income—

Mr. BRALEY. That is correct.

Senator BUMPERS. In order to get that number of food stamps.

Mr. HORNSBY. Yes, sir.



Senator BUMPERS. And then it goes down from there as your income goes up.

Mr. HORNSBY. Yes, sir.

Senator BUMPERS. As your income goes up, food stamps go down.

Mr. HORNSBY. Right.

Senator BUMPERS. From \$300-and-what?

Mr. HORNSBY. \$370 for a family of four.

Senator BUMPERS. Now, in 1993, the average monthly benefit in food stamps was \$68.24.

Mr. HORNSBY. Yes, sir.

Senator BUMPERS. How much income could I have and get 68 dollars' worth of food stamps?

Mr. HORNSBY. Well, that is \$280 a month. I would have to put that on the chart. I do not really know.

Mr. BRALEY. Mr. Chairman, the figure that Mr. Hornsby gave earlier was the maximum income you can have. It was \$1,100-and-something per month. At that level, you would get the minimum benefit in food stamps.

Senator BUMPERS. I understand.

Mr. BRALEY. \$10 is the minimum.

Senator BUMPERS. Is that the minimum?

Mr. BRALEY. The minimum benefit. Yes, sir. Between zero income and that income, it is a sliding scale. And for every dollar you make—

Senator BUMPERS. I understand, Mr. Braley.

Mr. BRALEY. You lose about 30 cents in food stamps.

Senator BUMPERS. But my question is: Since the average dollar value of food stamps in 1993 was \$68.24, I am just trying to figure what was the average income of these people who got those stamps?

Mr. HORNSBY. Now, that is the per person number, Mr. Chairman.

Senator BUMPERS. Is that per person?

Mr. HORNSBY. Yes, sir; that average, per person—

Senator BUMPERS. So for a family of four, that would be about \$250 a month, is that right?

Mr. HORNSBY. Around \$200, a little over that, I think.

Senator BUMPERS. Well \$70 times four would be \$280 a month.

Mr. HORNSBY. That would be right.

Senator BUMPERS. OK. So I misread that. \$280 is the average.

Mr. HORNSBY. Yes, sir; for a family of four.

#### FOOD STAMP PARTICIPATION

Senator BUMPERS. OK. Let me shift a little bit here.

In 1993, we will have 27,300,000, average, on food stamps. That is an increase of almost 2 million people—1,900,000 to be precise—from 1992. Now, you show that in 1994, the average is going to be 27,240,000, which is lower than 1993. If we have had an increase of 2 million since 1992, why do you think it is going to decline in 1994?

Mr. HORNSBY. We have seen the rate of increase, Mr. Chairman, level off some. I know you mentioned earlier we had an increase of 200,000 people—

Senator BUMPERS. Does that level off?

Mr. HORNSBY. Well, over the last 6 or 7 months, the rate of increase has been dropping. We had real dramatic increases in 1991. In 1992, the rate of increase leveled off.

In fact, even in 1 month recently, we had a drop in participation. We have statistical models that help us project participation. We are projecting that that average that you gave, 27.2 million, will be the average for the fiscal year 1994.

Mr. BRALEY. Mr. Chairman, implicit in the numbers for 1994 are an improving economy, and continuing reductions in the unemployment rate. It really is the underlying economic fundamentals that we think will cause food stamp participation to level off and begin to decline, just slightly, by 1994.

Senator BUMPERS. You know, this is one place where government is really a big help for business. If they pay minimum wage, those people are eligible for food stamps.

Mr. BRALEY. That is true, Mr. Chairman.

#### WIC INFANT FORMULA REBATES

Senator BUMPERS. On the infant formula rebates, Mr. Hornsby, you state that a new law requires the Department of Agriculture to conduct bid solicitations for infant formula rebates on behalf of a group of States, if you are requested to do so. That has been a pretty big cost savings measure, has it not?

Mr. BRALEY. It has been excellent. It supports over 1 million WIC participants today, just through the proceeds we get from rebates.

Senator BUMPERS. This law is supposed to go into effect in April 1993, which is right now. Have you implemented it?

Mr. BRALEY. We are in the process of implementing that law. Our goal is to have a system in place to offer States the opportunity to participate in the National Rebate Program.

Senator BUMPERS. How many have you heard from? How many States have requested this assistance?

Mr. BRALEY. None have committed to it, as yet. We are soliciting them to see whether they are interested in participating. They are taking a wait and see attitude, to see if we can get them a better deal than they think they can get on a rebate on their own.

We have had quite a bit of interest. How many States will ultimately choose to be a part of the system, we do not know at this point. Our goal is to have that in place in time for the beginning of fiscal year 1994—actually before that, so that States whose rebate contracts expire by September, this September 30, would be able to participate in such a program.

Senator BUMPERS. How much would you anticipate the savings to be, below what an ordinary housewife or new mother would pay when she walks into the drugstore to buy infant formula? On a percentage basis, do you have any idea?

Mr. BRALEY. I may ask a staff member who is with us to help me with this, but we have seen rebates of over 50 percent of the shelf cost of infant formula. It has really, I think, exceeded anybody's expectations, in terms of the amount of discount or benefits that go to the WIC Program.

I am told that the retail price is around \$2.10 or \$2.20. Our net cost, after the rebate, is in the neighborhood of 40 to 50 cents a

can. So it is even a greater savings than I indicated earlier. We are paying about one-fourth of the shelf price or less.

Senator BUMPERS. I am not believing this. Are you telling me that the new mamma who walks into the drugstore is paying 75 percent more for that formula than you can buy it for?

Mr. BRALEY. WIC participants buy it through that same store. They use their WIC coupons. They pay the full price for it at that point. The infant formula companies then rebate that amount back to the State.

The incentive for formula companies to participate in this is it gives them added exposure in the store. We serve, now, close to 40 percent of the infants in this country through the WIC Program. They want that business badly enough that they have been willing to offer these very substantial rebates.

Senator BUMPERS. I understand that is the way the program works, Mr. Braley, but if I am not on the WIC Program and I walk in there, I am going to pay \$2.10 for which you can buy for 40 cents. Did I understand that correctly?

Mr. BRALEY. Yes; that would be the net cost to the WIC Program for that same can of formula.

Senator BUMPERS. That is just staggering. I am stunned with that. Are you not?

Mr. BRALEY. I have seen it evolve over the last 6 or 7 years, so I am less shocked at it now than I was initially, Mr. Chairman. [Laughter.]

Senator BUMPERS. The pharmaceutical companies look like real Christians.

Mr. HORNSBY. The infant formula companies objected very much to that rebate process years ago. They say they priced their product as a medicine almost, rather than a food. The States were very aggressive in insisting on rebates. That is how it happened. It made the WIC money stretch a lot further, of course.

Senator BUMPERS. Mr. Hornsby, is the WIC Program under your jurisdiction?

Mr. HORNSBY. It is under the jurisdiction of the Food and Nutrition Service. Yes, sir.

#### WIC VITAMIN SUPPLEMENTATION

Senator BUMPERS. I understand that pregnant women who are enrolled in the WIC Program and referred to a physician, and he usually prescribes a multivitamin supplement during pregnancy and lactation, is that correct?

Mr. HORNSBY. I am going to defer to Mr. Braley on that, if I could.

Mr. BRALEY. When we are not acting in other positions, Mr. Hornsby has a strong background in food stamps and I have worked on the other programs in the Food and Nutrition Service. Our answers tend to fall in those areas, if you would allow that, Mr. Chairman.

The issue of vitamin supplementation, I understand that that is frequently done during pregnancy.

Senator BUMPERS. Have you ever checked with the Public Health Service to see what their recommendation is on vitamins for pregnant women and lactating women?



Mr. BRALEY. I am sure we have. I have not—I am not personally familiar with us asking that question. I know we work closely with that.

Senator BUMPERS. I am not going to burden you with that. We will check with the Public Health Service and see what their recommendation on that is.

Mr. BRALEY. Mr. Chairman, I am told by the staff who is here with us today that we do check routinely with Public Health Service and follow their recommendations in that regard.

Senator BUMPERS. I assume that that recommendation of a multivitamin, kind of one of the A-type multivitamins, then, would be recommended by the Public Health Service.

Mr. BRALEY. If I might, Mr. Chairman, ask Mr. Vogel to comment on that.

Senator BUMPERS. Mr. Vogel, if you would like, just state from there what you are telling him. We will all learn together.

Mr. VOGEL. We consult very closely with the Public Health Service—

Senator BUMPERS. I am sorry.

Mr. VOGEL. We consult very closely with the Public Health Service and their recommendations in terms of nutrition. Now, we do not provide multivitamin supplements to the WIC Program, but our food package is geared around the recommendations for maternal nutrition that they advise.

So we work very closely with the Department of Health and Human Services in terms of nutrition, in setting goals and objectives of the WIC food package service.

Senator BUMPERS. Thank you very much. Mr. Braley, how many WIC participants get pregnant the second time, after enrollment?

Mr. BRALEY. We do not have figures on that, although we do know that a significant percentage of people return to the WIC Program for subsequent pregnancy.

That, by the way, is one of the reasons we would like to try to have benefits available for children up through their fifth birthday. So if a woman becomes pregnant again and she still has her child in the health care, she would immediately enroll in WIC as soon as she became pregnant.

#### FOOD PYRAMID

Senator BUMPERS. How is this working, the food pyramid program?

Mr. BRALEY. I will comment in general terms and ask Mr. Rust to elaborate a little bit. That publication has been extremely well received. We have printed it numerous times. Lots of people have adopted the pyramid as a symbol to promote their particular product. It has been very, very successful.

Senator BUMPERS. How do you distribute that and to whom do you distribute it, Mr. Rust?

Mr. RUST. We have had an aggressive multifaceted public relations campaign to get the word out, to get the booklets out. The pyramid booklet, along with a poster and reproducible leaflet, has gone to all 90,000 schools that participate in the School Lunch Program. We have incorporated the pyramid into publications targeted to older adults and adults with low reading skills. We have worked



with the Food Marketing Institute in developing materials for use in the supermarkets.

We have worked jointly with the Department of Health and Human Services to use their channels through the Public Health Service. We have encouraged use of the pyramid among the professional community, the Cooperative Extension Service, and professional associations such as the American Dietetic Association. We also work with what we call information multipliers—people who take our material and reproduce it and distribute it far beyond what we can reach directly with a government publication.

Senator BUMPERS. Is that designed for mostly high school kids or all ages? Is this taught in the classrooms in this country or do you know?

That is up to each school, I assume.

Mr. RUST. It is up to each school system. We have encouraged use of the pyramid through the packets sent to schools that participate in the School Lunch Program. We have also developed a teaching kit for junior and senior high school health educators which includes a reproducible pyramid leaflet. Additional activities to encourage use in the schools include working with home economics and health textbook publishing companies and with those who develop nutrition curriculum. So we have tried to penetrate the school market.

Senator BUMPERS. Do you have separate appropriation for the food pyramid program?

Mr. RUST. We do not. It is part of our regular ongoing activities.

Senator BUMPERS. You are asking, in your budget, for \$10.3 million for the Child Nutrition Program, the Nutrition Education and Training Program. Do you use that money for this?

Mr. BRALEY. Mr. Chairman, the food guide pyramid is being integrated along with the dietary guidelines in the materials we are producing for school children through the NET Program. The Nutrition Education and Training Program are State grants that allow them to—

Senator BUMPERS. Oh, you give this money to the States.

Mr. BRALEY [continuing]. To do curriculum development and these types of things and—

Senator BUMPERS. But \$10 million does not go very far with 50 States, does it?

Mr. BRALEY. No, sir; it does not. It is a \$10 million program at this point, for the Nutrition Education and Training Program. It was only \$5 million a few years ago. So there has been an increase.

When it was initially authorized, it was a larger program. They do a lot with the \$10 million. So I do not mean to imply that it is not adequately funded. They get good mileage out of that money.

Senator BUMPERS. Do you have any idea what percentages of the school districts in this country you are reaching with this, Mr. Rust, the food pyramid?

Mr. RUST. We send it to all of them. How it is being used—

Senator BUMPERS. You send it to every school district in the country.

Mr. RUST. That is participating in the School Lunch Program. Yes, sir.

Mr. BRALEY. And that is about 95 percent of the school districts in the country. There are some—a fairly small number, mostly private schools, that do not choose to participate, but it is the vast majority.

Senator BUMPERS. You mentioned School Lunch Program. How is that going? A couple of years ago, we got into some real donnybrooks over that program.

Mr. BRALEY. I think the School Lunch Program is running rather well. The trends in the program have been, I think, consistent with the overall economic trends. We have seen some increase in free meals, a slight decline in paid meals—overall a modest increase.

We are serving about 25 million meals a day. Seven percent of those are reduced price meals. Then it is evenly split between paid meals for higher income children and free meals for the very low-income children that are in the program.

I think it is a healthy program. It is running well. We continue to work hard to make sure that it is run in a cost-effective way and are working with the States to monitor the program.

There have been instances of abuses in the past that we responded to with the Appropriations Committee's help to try to make sure the program does what it is intended to. I think it is running pretty well at this point.

Senator BUMPERS. You have got a request for \$7.5 billion here for child nutrition programs. And I cannot tell how much of that is for school lunch programs. Of course, it is very difficult to give a special milk program. That is a part of the School Lunch Program.

Mr. BRALEY. It is actually available, principally, to half-day kindergartners and that type of thing. It does not operate side by side with the School Lunch Program as it did a number of years ago.

Senator BUMPERS. How much of this \$7.5 billion for child nutrition programs is the School Lunch Program?

Mr. BRALEY. The School Lunch Program is just over \$4.3 billion of that total.

Senator BUMPERS. The school breakfast, though, is on top of that—almost \$1 billion.

Mr. BRALEY. That is correct, Mr. Chairman. The School Breakfast Program has been growing pretty dramatically in recent years; in part, because of outreach efforts that States have made with grants from the Federal Government.

Senator BUMPERS. You know, Mr. Braley, just on a personal note, I can say kids nowadays are a lot healthier. Of course, I grew up during the Depression, when we never had meat, except on Sunday, and that was the old red rooster or something, but children are so much healthier now than they were when I was growing up. We did not have enough to eat. And we certainly did not have a balanced diet. And I think these programs are just great.

I mean, when people start lambasting government to me and I think of all of the things that government and only government can do for a healthy nation, that is the reason I am going to vote for some kind of health care.

I do not know what it is going to be, but sometimes when I wake up in the night, I think about a member of my own family who,

you know, will not have to worry forever about being wiped out with a health care bill.

People ought not to have to wake up in the middle of the night worrying about things like that. And they ought not to have to worry about preexisting conditions or that so-called cherry picking, losing your insurance if somebody gets AIDS or cancer in your company.

I just do not think Congress has a higher mandate than to deal with that. You know, you have—night thoughts, when you get up in the morning, do not seem so important and dire. That is one thing that is as dire to me when I get up in the morning as it was when I woke up in the middle of the night thinking about it.

And no society can claim to be civilized and really a caring government and have people worried—I am not talking about the 35 million people who are not covered. I am talking about people who are covered.

When I was doing my tax return this year, I found I had spent—I have got every kind of coverage you can get. I spent \$4,000 last year—

Mr. BRALEY. Out of pocket.

Senator BUMPERS [continuing]. Out of my pocket. It does not make any difference what kind of coverage you have got, you are still subject to being whacked pretty hard with a health care bill.

And we cannot go on in this country—but anyway, these nutrition programs are so important, because there is no higher purpose that Congress and certainly this committee ought to have than a good healthy nation.

So I applaud these. I know there is fraud. And I know people abuse these things and always will, but I can live with a 6- or 7-percent error rate, in order to accommodate the other 93 percent.

We have three or four questions we will submit to you in writing.

Mr. BRALEY. Thank you, Mr. Chairman.

#### SUBMITTED QUESTIONS

Senator BUMPERS. Thank you for your testimony. Additional questions will be submitted for written responses and we ask you to respond to them within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## FOOD AND NUTRITION SERVICE

## QUESTIONS SUBMITTED BY SENATOR BUMPERS

## NUTRITION EDUCATION AND TRAINING

Question. I note in your budget request that you have requested \$10.3 million through the Child Nutrition Programs for the Nutrition Education and Training Program (NET).

What activities are being conducted with NET funding?

Answer. Activities in States vary from year to year, as States address top priorities identified by their ongoing needs assessments and tailor activities to local needs. As a result, projects vary in scope and approach. During Fiscal Year 1992 with a national budget of \$10 million, NET reached 6,669,040 children, 144,665 teachers and 95,368 food service personnel. Food and Nutrition (Volume 22, Numbers 1-2, December 1992), the Agency magazine, gives illustrations of NET accomplishments across the nation. The article describes creative programs that can and should be adopted by other schools. Here are several examples:

- o In Hawaii, the NET coordinator worked with State department of health nutritionists to produce videotapes on healthful eating for pregnant teens. To appeal to students, teens were consulted on the content of the videos, and teenagers and well-known sports figures deliver the nutrition advice. The videos are available through the State department of education which also provided a training course for teachers on using the videos and supporting materials.
- o In South Dakota, NET workshops encourage school food service personnel to work with teachers and children on educational classroom activities. For example, the director of food services for Rapid City schools invited a school lunch produce supplier to visit classrooms to talk to children about the value and enjoyment of fresh fruits and vegetables. He captured the interest of the children with colorful displays and with samples they could see, touch, smell, and taste. At the elementary schools, along with the tasting parties, there were tours of the production kitchens, and guests from the community were invited to have lunch with the children in any school, any day.
- o A regional project called "Project 2001", Build a Better Body, Build a Better World" is designed to give schools tools they can use in getting students



and parents interested in nutrition education and in helping schools bring their meals in line with Federal dietary guidelines. During "Project 2001s" first year, a total of 105 school districts--representing 619 schools in the Southwest Region--took part.

NET funds are used to develop nutrition education materials for statewide use, to support regional workshops or award grants to local school districts for community-based projects, or to support nutrition education projects sponsored by other groups.

Question. How many school districts are being reached with NET funding in 1993?

Answer. The Nutrition Education and Training (NET) regulations require reporting on an annual basis. Data are collected on the number of public and private schools reached, rather than by school district. Data for Fiscal Year 1991 show 19,872 schools were reached. Preliminary data for Fiscal Year 1992, with a majority of States reporting and remaining States' data estimated based on the prior year activity, show approximately 24,283 schools reached. The approximate 25 percent increase in participation of schools from Fiscal Year 1990 (19,412) is likely the result of expanded program activity utilizing the \$2.5 million increase in the NET appropriation for Fiscal Years 1991 and 1992 compared to Fiscal Year 1990.

#### ELECTRONIC BENEFIT TRANSFER

Question. I understand that the Electronic Benefit Transfer system (EBT) is a major alternative method of providing program participants with the value of the coupons used to make food purchases and has the potential to reduce benefit diversions, including trafficking. How many and what Electronic Benefit Transfer systems are you currently evaluating?

Answer. Six evaluations are planned or underway. FNS is funding evaluations of five systems: two county-level EBT systems that use on-line technology for the Food Stamp and Aid to Families with Dependent Children Programs (Ramsey County, Minnesota and Bernalillo County, New Mexico); one statewide on-line system that integrates food stamps, AFDC, and Child Support Enforcement (Maryland); one county-level system employing off-line EBT technology for food stamps (Dayton, Ohio); and one system under development in Wyoming that plans to use off-line EBT technology to integrate food stamps with the Supplemental Food Program for Women, Infants, and Children. Finally, the State of New Jersey is funding an evaluation of its on-line EBT system.

Question. What additional EBT projects are you anticipating for 1993?

Answer. Thirty-two States have EBT projects in various stages of planning, development and operation. Five States currently have operating EBT projects: Reading, Pennsylvania; Albuquerque, New Mexico; Dayton, Ohio; Ramsey County (St. Paul), Minnesota; and statewide in Maryland. By the end of 1993, we expect to add a voluntary EBT food stamp component to an already operating EBT project for AFDC in Cedar Rapids, Iowa, and to implement an EBT project in New Jersey. South Carolina, Texas, and Wyoming are all expected to award EBT contracts during 1993 for project implementation during 1994 or 1995.

Question. What is the evidence to date regarding savings for the programs and other impacts of the new EBT system?

Answer. Evaluations to date indicate that EBT is technologically feasible, virtually eliminates problems with cash change, and provides strong tools to combat trafficking. Impacts on recipients, financial institutions, and food retailers are positive and large majorities of each group prefer EBT to the coupon system.

The only cost studies released to date present data from early EBT systems. While it is clear that system participants (i.e., recipients, retailers, and banks) prefer the convenience of EBT, the picture on government cost savings is not conclusive. Early EBT systems cost significantly more than coupon systems.

The legislation and program rules require that EBT systems for the Food Stamp Program be cost neutral to the Federal government. Specifically, EBT cannot cost FNS more than the coupon delivery system being replaced. The expectation is that EBT systems processing a large volume of food stamp transactions, combining benefit delivery across multiple programs, and maximizing use of the existing commercial debit card networks will be cost competitive. EBT systems serving a single program and a small number of households are unlikely to meet the present cost neutrality requirement.

The Agency's EBT research is consistent with this view. Administrative costs for EBT appear to decline as system scale increases. Data on the benefit-related outcomes of EBT currently are unavailable but are being collected in evaluations of the Maryland, New Mexico, and Minnesota EBT systems where cost is the principal study objective.

Question. What can you tell me about the development of an EBT Prototype by the Department of Treasury, which is the first step toward development of a nationwide EBT system?

Answer. The Financial Management Service (FMS) of the Department of Treasury is coordinating the SingleCard

Prototype Project for the Federal government. The purpose of the SingleCard Prototype is to conduct a large-scale demonstration of the operational feasibility of an EBT system that provides electronic benefit payments to multiple Federal and State assistance programs across State lines. The Department of Health and Human Services (DHHS) and FNS have already tested multi-program EBT systems for the State-administered Federal assistance programs (i.e., AFDC and food stamp benefits on a single system). The SingleCard Prototype will combine assistance programs directly administered by the Federal government (e.g., Supplemental Security Income Program, Social Security benefits), State-administered Federal assistance programs, and State general assistance programs through a single EBT system. The objective of the project is to determine the most effective and efficient administrative design for the prototype EBT system. The SingleCard Prototype could serve as a model for EBT operating systems.

The project is currently in the development stage. The Treasury FMS published a notice on January 12, 1993 in the Commerce Business Daily announcing its intent to contract for the development of one or more models for a SingleCard Prototype to address the functional requirements of the Federal and State programs involved. It is expected that a formal solicitation for bidders will be issued by Treasury FMS shortly.

Question. What other federal agencies might be involved in a nationwide EBT system. Would state agencies be involved?

Answer. The following Federal agencies provide assistance payments to beneficiaries which could be involved in an EBT system: Social Security Administration for both Supplemental Security Income, and Social Security benefits, Administration for Children and Families for AFDC and Child Support, Food and Nutrition Service for the Food Stamp Program and Special Supplemental Food Program for Women, Infants, and Children. State agencies would be involved for those programs which include a State matching portion and for any State-only programs included in the EBT system.

#### SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN (WIC)

Question. I note in your budget request of \$3.287 billion for WIC, that you estimate the average monthly participation would increase to 6.4 million, an increase of about 400,000 from the expected Fiscal Year 1993 average.

What percent by category of the nutritionally at-risk, low-income infants, children and pregnant and postpartum women eligible for WIC would be served at this level?

For 1992, please provide information by state on the percent eligible and those participating in each nutritional risk category.

Answer. USDA's most recent estimate indicates that about 8.6 million women, infants and children were fully eligible for WIC in 1991. Coverage in 1991 was about 90 percent for infants and pregnant women, about 50 percent for postpartum and breastfeeding women and about 45 percent for children. We have included a table of these estimates for the record. Estimates of categorical coverage rates for 1994 cannot be made until estimates of eligibles in 1994 are available.

[The information follows:]

SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR  
WOMEN, INFANTS AND CHILDREN (WIC)

ELIGIBILITY AND COVERAGE ESTIMATES  
1991 UPDATE - U.S. and Outlying Areas

	1991 Eligible (000)	CY 1991 Partic. (000)	1991 Coverage (%)	1990 Eligible (000)	CY 1990 Partic. (000)	1990 Coverage (%)
Pregnant Women	819	730	90%	765	659	85%
Postpartum & Breastfeeding	876	425	50%	818	381	45%
Infants	1,762	1,603	90%	1,646	1,444	90%
Children	5,173	2,296	45%	4,950	2,063	40%
Total	8,630	5,054	60%	8,178	4,548	55%

Based on the March 1992 Current Population Survey (CPS), FNS estimates that 8.6 million women, infants and children were fully eligible for the WIC Program in 1991, a 5.5 percent increase over the number eligible in 1990. A significant increase in WIC average monthly participation (over 500,000) allowed overall program coverage to increase to about 60 percent in 1991 from about 55 percent in 1990 despite the increase in the number of WIC eligible persons. (Coverage estimates are rounded to the nearest 5 percent).

Coverage of pregnant women increased to about 90 percent in 1991 from about 85 percent in 1990 because of the 10.7 percent increase in participation. Coverage of postpartum and breastfeeding women increased from 45 percent to about 50 percent and children from about 40 percent to about 45 percent due to participation increases of 11.6 percent and 11.3 percent respectively. Coverage of infants remained about 90 percent in 1991 despite the 11 percent increase in infant participation.

A total of 10.6 million women, infants and children fell below the WIC income eligibility limit in 1991, a 5.4 percent increase over the number income eligible in 1990. The March 1992 CPS uses income information from the prior year capturing the continuation through 1991 of the recession that began in July 1990. The increase in WIC income eligible persons was less than the 6.3 percent increase between 1990 and 1991 of the number of persons below poverty reported by Census. Census identified a U.S. poverty rate of 14.2 percent in 1991, up 5.2 percent from the 13.5 percent rate in 1990.

The estimate of 8.6 million WIC eligible persons in 1991 assumes that about 4 out of 5 income eligible persons are also at nutritional risk and thus fully eligible for the WIC Program. The estimates of pregnant, postpartum and breastfeeding women are based on the count of infants from the CPS and relationships found in the 1980 Decennial Census. These estimates do not factor in the effect of Medicaid adjunct eligibility. Assumptions about counts of women and the effect of Medicaid adjunct eligibility are currently being analyzed using data



from the 1990 Decennial Census. Assumptions about percentages of income eligible persons at risk will be reanalyzed when new national health and nutrition survey data become available.

These eligibility and coverage estimates are for 1991 and do not factor in changes in participation or eligibles that have occurred since 1991. WIC participation has continued to grow; in FY 1992 WIC participation averaged 5.4 million women, infants and children per month (as of August 1992). The recession also continued throughout FY 1992 with higher unemployment rates and Food Stamp participation than in 1991; therefore it is likely that the number of WIC eligibles has also increased. Estimates of program coverage rates for 1992 cannot be made until 1992 income data become available.

While the President's request is sufficient to provide WIC benefits to every high-priority pregnant woman and infant, differentials in State-level program coverage cause coverage rates by category to vary by State. State-level estimates of eligibility and coverage are not available for 1992. USDA is currently working on State-level estimates for 1989 based on the 1990 Decennial Census. USDA expects to complete estimates of income eligible persons by the end of August 1993.

Question. Please provide for the record a list of states that participate in funding the WIC program and the extent of the participation.

Answer. Attached, for the record, is a list of State agencies that provide State funding to support participation in the WIC Program for Fiscal Year 1993. Also attached is the Fiscal Year 1992 monthly average participation by State agency.

[The information follows:]

### **WIC PROGRAM** ***State Appropriations - Fiscal Year 1993***

<u>State</u>	<u>Amount</u>	<u>Funds Available</u>	<u>Purpose</u>
Alaska	\$346,300	7/1/92 - 6/30/93	Food
Arizona * +	\$1,000,000	7/1/92 - 6/30/93	Food and NSA
Connecticut	\$118,000	7/1/92 - 6/30/93	NSA
Dist. of Columbia	\$516,000	10/1/92 - 9/30/93	Food and NSA
Indiana	\$100,000	7/1/92 - 6/30/93	NSA
Maryland	\$500,000	7/1/92 - 6/30/93	Food and NSA
Massachusetts	\$12,005,318	7/1/92 - 6/30/93	Food and NSA
Minnesota	\$950,000	7/1/92 - 6/30/93	Food and NSA
Nevada	\$600,000	7/1/92 - 6/30/93	Food and NSA
New Hampshire	\$89,100	7/1/92 - 6/30/93	NSA
New York	\$37,224,085	4/1/92 - 3/31/93	Food and NSA
North Carolina #	\$1,919,656	7/1/92 - 6/30/93	Food
Pennsylvania +	\$17,000,000	7/1/92 - 6/30/93	Food and NSA
Texas +	\$3,300,000	9/1/92 - 8/31/93	Food and NSA

Washington	\$4,200,000	7/1/92 - 6/30/93	Food and NSA
West Virginia	\$400,000	7/1/92 - 6/30/93	NSA
Wisconsin	\$3,031,100	7/1/92 - 6/30/93	Food and NSA
<hr/>			
TOTAL	\$83,299,559		

\$ Funds for Nutrition Services and Administration are noted by "NSA".

\* Funds are allocated from the Governor's discretionary account and may be reduced due to budget shortfalls.

+ Funds must be allocated based on an 80% / 20% food to NSA ratio.

# Funds may also be used to support a state match for the Farmer's Market Nutrition Program.

Updated: January 28, 1993

WIC PROGRAM		WIC PROGRAM	
	FY 1992 Average Monthly Participation		FY 1992 Average Monthly Participation
NERO		MWRO	
CONNECTICUT	61,607	ILLINOIS	204,254
MAINE	25,741	INDIANA	130,100
MASSACHUSETTS	93,364	MICHIGAN	175,339
N HAMPSHIRE	18,260	MINNESOTA	81,265
NEW YORK	373,746	OHIO	229,214
R ISLAND	17,732	WISCONSIN	82,702
VERMONT	15,436	SUBTOTAL	902,874
INDIAN TWSHP	89		
PL POINT	110	SWRO	
SENECA NATION	300	ARKANSAS	78,291
SUBTOTAL	606,385	LOUISIANA	130,657
		NEW MEXICO	39,617
MARO		OKLAHOMA	59,490
DELAWARE	14,305	TEXAS	466,280
DIST COLUMBIA	16,480	ACL, NM	531
MARYLAND	70,405	8N PUEBLO	495
NEW JERSEY	124,835	ISLETA	496
PENNSYLVANIA	225,561	SANTO DOMINGO	295
PUERTO RICO	132,701	5 SANDOVAL	386
VIRGINIA	103,732	SAN FELIPE	329
V ISLANDS	6,370	WCD, ENT	1,924
W VIRGINIA	42,469	CHOCTAW, OK	2,259
SUBTOTAL	736,858	CHEROKEE	6,160
		CHICKASAW	1,768
SERO		TONKAWA	654
ALABAMA	118,321	POTAWATOMI	1,109
FLORIDA	240,409	ZUNI	835
GEORGIA	190,107	ITC, OK	277
KENTUCKY	100,869	SUBTOTAL	791,853
MISSISSIPPI	108,790		
N CAROLINA	153,961	MPRO	
S CAROLINA	102,961	COLORADO	51,875
TENNESSEE	120,873	IOWA	76,451
SEMINOLES	191	KANSAS	49,297
MICCOSUKEE	59	MISSOURI	97,320
CHOCTAW, MS	648	MONTANA	18,004
E. CHEROKEE	762	NEBRASKA	28,714
SUBTOTAL	1,137,951		

WIC PROGRAM		WIC PROGRAM	
	FY 1992 Average Monthly Participation		FY 1992 Average Monthly Participation
N DAKOTA	16,322	ARIZONA	55,354
S DAKOTA	19,210	CALIFORNIA	537,496
UTAH	50,225	GUAM	3,638
WYOMING	9,840	HAWAII	18,256
SHOSH/ARA	876	IDAHO	28,424
UTE MTN	154	NEVADA	15,913
WINNEBAGO	644	OREGON	60,065
CHEYENNE RV	714	WASHINGTON	73,062
ROSEBUD	1,487	MANIILAQ	420
ST ROCK	1,198	ITCN	1,032
FT BERTHOLD	539	NAVAJOS	16,894
SUBTOTAL	422,870	ITCA	6,653
		SUBTOTAL	828,525
WRO		-----	
ALASKA	11,318	NATIONAL	5,427,316

#### COMMODITY SUPPLEMENTAL FOOD PROGRAM

Question. As you know, this committee in the past has taken an interest in the expansion of the elderly caseloads and the approval of applications for additional CSFP sites. I note that the budget request for this program is the same as the amount appropriated for 1993, and that you project a decrease in program participation for the elderly.

Could you please explain why you project reduced participation for the elderly?

Answer. The full funding estimate of the Congressional Budget Office for WIC and the increases in the President's Budget assumed constant participation in the Commodity Supplemental Food Program (CSFP) by women, infants, and children.

The Fiscal Year 1994 budget request must be consistent with the funding priorities outlined in the current CSFP regulations. Thus, first priority must be given to maintaining Fiscal Year 1993 participation levels for women, infants and children, thereby reducing the elderly caseload allocation.

Question. What applications, and for what number of participants have you received for new programs and increased caseloads that you have not been able to fund? Please provide the information for both the elderly and the women and infants programs for fiscal years 1992 and 1993. What are the associated costs?

Answer. In Fiscal Year 1992, the caseload level for women, infants and children totaled 252,604. However, there were approximately 45,000 unfunded women, infants and children slots requested by States wanting to

initiate service. The associated food and administrative costs for the new States was \$11.6 million. The Fiscal Year 1992 elderly caseload totaled 145,717 with an additional 69,368 slots unfunded. The additional cost of funding these slots would have been \$14.9 million.

In Fiscal Year 1993, women, infants and children caseload totals 246,385. There are approximately 73,700 slots requested that are unfunded. The food and administrative costs associated with these slots is \$19 million. The Fiscal Year 1993 elderly caseload equals 142,250, with requests for over 90,000 expansion slots that are unfunded. The cost of funding the additional elderly slots would be \$19.3 million. The following chart reflects the unfunded caseload requests received for Fiscal Years 1992 and 1993 for each CSFP State agency.

[The information follows:]

COMMODITY SUPPLEMENTAL FOOD PROGRAM  
UNFUNDED APPLICATIONS AND CASELOAD EXPANSION REQUESTS

	FISCAL YEAR 1992		FISCAL YEAR 1993	
	UNFUNDED	UNFUNDED	UNFUNDED	UNFUNDED
	W-I-C	ELDERLY	W-I-C	ELDERLY
CURRENTLY PARTICIPATING STATES	EXPANSION REQUESTS	EXPANSION REQUESTS	EXPANSION REQUESTS	EXPANSION REQUESTS
NEW HAMPSHIRE	0	7,598	0	9,000
NEW YORK	0	0	7,500	0
DISTRICT OF COLUMBIA	0	64	0	500
KENTUCKY	0	1,471	0	2,200
NORTH CAROLINA	0	0	0	0
TENNESSEE	0	4,671	2,500	2,500
ILLINOIS	0	0	1,394	798
MICHIGAN	0	4,815	6,800	15,650
MINNESOTA	0	14,633	0	17,000
RED LAKE	0	0	0	0
LOUISIANA	0	18,995	5,000	25,000
NEW MEXICO	0	0	0	5,000
COLORADO	0	0	0	1,000
IOWA	0	0	0	0
KANSAS	0	0	0	829
NEBRASKA	0	2,600	600	2,400
SOUTH DAKOTA	0	0	0	0
ARIZONA	0	14,350	3,000	7,716
CALIFORNIA	0	171	1,644	500
OREGON	0	0	175	0



-----	:	:			:		
NEW STATES REQUESTING	:	:			:		
TO INITIATE SERVICE	:	:			:		
-----	:	:			:		
TEXAS	:	10,000:	0		10,000 :	0	
OHIO	:	32,112:	0		32,112 :	0	
PENNSYLVANIA	:	3,000:	0		3,000 :	0	
-----	:	:			:		
TOTAL	:	45,112:	69,368		73,725 :	90,093	
-----	:	:			:		

### CCC-DONATED COMMODITIES

Question. What amount and type of CCC-donated commodities are anticipated for 1993 and 1994?

Answer. The Department of Agriculture will provide 9 million pounds of cheese and 4 million pounds of nonfat dry milk to the Commodity Supplemental Food Program for Fiscal Year 1993. The law requires these donations if CCC stocks are available. The Department also provides CCC-donated cornmeal and butter to the Commodity Supplemental Food Program. There is no limit on butter and cornmeal donations in 1993 to the extent that these products can be used without waste. The Commodity Supplemental Food Program has ordered 1,122,192 pounds of butter valued at \$505,684 and 4,636,250 pounds of cornmeal valued at \$1,087,965 in 1993. These butter and cornmeal amounts are preliminary. At this time it is anticipated that donations will again include butter and cornmeal in Fiscal Year 1994. The cornmeal for the Commodity Supplemental Food Program in 1994 will be capped at 4.4 million pounds.

Question. What was the amount in 1992?

Answer. The 1992 CCC-donated commodity amounts provided to the Commodity Supplemental Food Program were 9 million pounds of cheese and 4 million pounds of nonfat dry milk as bonus. The Commodity Supplemental Food Program used an additional 8,549,408 pounds of nonfat dry milk purchased with program funds at a value of \$8,910,160. The Commodity Supplemental Food Program ordered 8,923,700 pounds of cornmeal valued at \$1,039,706 and 3,811,428 pounds of butter valued at \$3,551,674 in 1992.

### SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN (WIC)

Question. Mr. Hornsby, I note in your testimony that you are proposing appropriations language for fiscal year 1994 that would allow the Secretary to waive regulations governing the funding allocation formula to ensure that WIC funds can be used most effectively.

Why is this language necessary? What will be the impact on the states?

Answer. WIC funding regulations require food funds to be allocated evenly between two components: targeting and growth. All States receive targeting funds based on their service to Priority I participants (mainly pregnant women with identified health and/or at nutritional risk). Growth funds are allocated only to those States which receive less than their equitable share of funds based on their eligible populations, as compared to other States. USDA calculates each State's equitable share of the available funds assuming that each State receives funds strictly based on their number of potentially eligible participants. Those States whose grant levels are less than their equitable share are eligible to receive growth funds until their equitable share is achieved.

Census data from 1990, used for the first time in the determination of Fiscal Year 1993 food grant levels, revealed that certain States are severely underfunded based on the size of their eligible populations. Through the growth component of the funds allocation formula, particular States are eligible for substantial increases in funding.

However, since the food funds allocation formula currently caps (at 15 percent above the prior year grants adjusted for inflation) the increase in funding that any State may receive from one fiscal year to the next, the formula prevents some underfunded States from receiving their fair share of growth funds from allocations and reallocations. The 15 percent capping provision seemed a reasonable limitation on growth at the time it was put into place. However, its effect is to deny funds to some States that have growth capacity.

At this time it is not clear whether the formula allocation process for Fiscal Year 1994 would encounter similar difficulties, since it is dependent, in part, on the size of the Fiscal Year 1994 appropriation. The language in the Fiscal Year 1994 appropriation would allow USDA to avoid these potential problems should the situation occur during Fiscal Year 1994 in which underfunded States are limited in receiving funds.

Question. Will you be proposing new or revised regulations in the near future?

Answer. USDA is currently seeking appropriate legislation effective for the remainder of Fiscal Year 1993 to permit the lifting of the 15 percent capping provision. If no legislative vehicle can be found, USDA will seek to implement an emergency regulation to lift the 15 percent capping provision until Fiscal Year 1994. The language in the Fiscal Year 1994 appropriations request will give the Secretary the flexibility to use investment funds to serve the most at-risk eligible

women, infants and children. USDA plans to propose a package of regulations in Fiscal Year 1994 to simplify and improve the funds allocation process. However, the development of this package will continue beyond the point at which the Fiscal Year 1994 appropriation is passed and allocated.

Question. Have you discussed this proposal with the State WIC directors? What do they think?

Answer. The National Association of WIC Directors (NAWD) has indicated that its membership is generally supportive of lifting the 15 percent capping provision so that State agencies in greatest need can receive more funds in Fiscal Year 1993.

#### REBATES

Question. I know we've asked you to work on other methods of cost containment with other foods. Are you getting rebates on other products? If not, why not? Are there other cost containment measures that you are using widely?

Answer. The U.S. Department of Agriculture, Food and Nutrition Service continues to encourage and promote the purchase of supplemental foods in addition to infant formula under cost containment procedures. Currently, we are aware that four WIC State agencies have contracted for rebates for infant cereal. They are Indiana, North Carolina, Texas and New York. California has solicited for bids for an infant cereal rebate. West Virginia solicited and currently receives the "best wholesale price" for infant cereal and juice.

We are aware that several States are receiving Welch's Cost Relief Grants as a cost containment measure. Welch's has offered these grants to State agencies based on the number of cases of Welch's grape juice (46 oz. ready-to-feed) shipped into the State. The only WIC-related requirement is that Welch's juice be included on the State's list of approved food package items. Once this is done, the State will be entitled to grant funds on the basis of the volume of juice sold within the State, regardless of whether any Welch's juice is purchased through the WIC Program.

Other cost containment procedures include direct distribution and home delivery. Mississippi operates a direct distribution system, and Ohio and Vermont operate a home delivery (dairy) system where companies bid competitively to provide WIC foods.

Further extension of the cost containment concept is competitive bidding among retail grocery stores. Delaware has implemented a successful vendor selection initiative in this area--Selecting Authorized Vendors Efficiently (SAVE). The initiative involves a process of

selecting and authorizing a predetermined number of vendors who will provide WIC approved foods at cost competitive prices and allow convenient access to participants. Vendors are required to submit bids for all WIC authorized foods, except non-contract formula, which are usually below normal shelf prices. The State agency also saves food dollars by selecting vendors whose competitive prices will remain stable for the contract period.

#### FOOD STAMP ADMINISTRATIVE COSTS

Question. You indicate that you will propose legislation to limit the state administrative cost share to 50 percent. I understand that 50 percent is the current rate but that states can receive more funds depending on their error rates or extra programs they run to cut fraud, etc.

Are you proposing that states be limited to 50 percent without regard to any other factors?

Answer. Enhanced Federal funding for State agencies' costs of performing the following activities would be reduced to a uniform 50 percent:

- o planning, designing, developing, or installing automated data processing and information retrieval systems;
- o investigating and prosecuting food stamp fraud;
- o use of the Systematic Alien Verification for Entitlement program administered by the Immigration and Naturalization Service.

Enhanced funding would remain available for carrying out certain aspects of the employment and training program, administering the Food Stamp Program on Indian reservations, and as an incentive for improving payment accuracy by State agencies (i.e., States with low error rates could receive enhanced funding).

Question. Could this have the effect of states loosening up on their efforts to curb waste, fraud and abuse?

Answer. We sincerely believe that will not be the effect of our proposal. State agencies have a stake in good Food Stamp Program management just as the Federal government does, and the incentive in the form of State agency retention of a share of sums recovered from fraud claims will remain.

Question. Please provide a list for the record for 1992 and 1993 of each state and the amount and percentage of cost share for administrative costs that it received.



Answer. The list is provided for the record.

[The information follows:]

FOOD STAMP PROGRAM  
Distribution of State Administrative Funds by State 1/

STATE / REGION	FY 1992 2/	% U.S. Total	FY 1993 3/	% U.S. Total
CONNECTICUT	14,271,913	.98	4,215,540	1.19
MAINE	5,869,522	.40	1,583,468	.45
MASSACHUSETTS	21,655,020	1.48	4,997,741	1.41
NEW HAMPSHIRE	2,638,396	.18	658,666	.19
NEW YORK	135,157,431	9.24	34,826,822	9.85
RHODE ISLAND	5,343,227	.37	1,321,617	.37
VERMONT	3,584,628	.25	784,816	.22
DELAWARE	3,442,780	.24	875,177	.25
DISTRICT OF COL	7,816,451	.53	1,511,804	.43
MARYLAND	16,640,974	1.14	4,752,684	1.34
NEW JERSEY	47,548,126	3.25	13,166,214	3.72
PENNSYLVANIA	82,203,156	5.62	21,460,974	6.07
VIRGINIA	36,321,547	2.48	9,477,917	2.68
VIRGIN ISLANDS	2,291,156	.16	644,741	.18
WEST VIRGINIA	6,325,253	.43	1,628,505	.46
ALABAMA	29,002,689	1.98	6,961,557	1.97
FLORIDA	54,038,979	3.69	11,751,677	3.32
GEORGIA	46,334,675	3.17	12,892,015	3.65
KENTUCKY	27,136,011	1.86	6,620,555	1.87
MISSISSIPPI	18,250,668	1.25	4,141,972	1.17
NORTH CAROLINA	30,673,807	2.10	7,798,797	2.20
SOUTH CAROLINA	18,521,076	1.27	3,940,828	1.11
TENNESSEE	32,214,377	2.20	8,180,980	2.31
ILLINOIS	54,197,646	3.71	12,773,291	3.61
INDIANA	21,258,099	1.45	5,314,221	1.50
MICHIGAN	58,305,901	3.99	11,982,406	3.39
MINNESOTA	22,250,722	1.52	5,491,840	1.55
OHIO	57,289,082	3.92	10,499,076	2.97
WISCONSIN	22,137,610	1.51	5,096,004	1.44
ARKANSAS	13,830,414	.95	3,420,639	.97
LOUISIANA	31,348,159	2.14	8,583,013	2.43
NEW MEXICO	10,616,207	.73	2,970,431	.84
OKLAHOMA	19,294,793	1.32	4,662,757	1.32
TEXAS	118,840,648	8.12	32,999,811	9.33
COLORADO	11,159,574	.76	3,056,506	.86
IOWA	8,449,889	.58	1,702,383	.48
KANSAS	7,242,567	.50	2,089,094	.59
MISSOURI	23,338,837	1.60	5,478,643	1.55
MONTANA	5,111,135	.35	961,855	.27
NEBRASKA	5,791,166	.40	1,082,331	.31
NORTH DAKOTA	3,250,330	.22	750,578	.21
SOUTH DAKOTA	3,875,993	.26	1,012,497	.29
UTAH	9,905,323	.68	2,083,055	.59
WYOMING	2,755,331	.19	692,668	.20
ALASKA	7,065,034	.48	1,958,437	.55
ARIZONA	19,086,109	1.30	5,550,572	1.57
CALIFORNIA	215,999,440	14.77	42,726,277	12.08
GUAM	2,270,874	.16	300,562	.08
HAWAII	5,951,517	.41	2,133,583	.60
IDAHO	4,363,997	.30	1,045,350	.30

NEVADA	5,146,615	.35	1,624,838	.46
OREGON	15,717,686	1.07	4,006,327	1.13
WASHINGTON	29,632,452	2.03	7,443,533	2.10
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United States	1,462,765,012	100.00	353,687,645	100.00
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- 1/ Includes all Food Stamp Program costs reported on the SF-269 (including Employment and Training Funds).
- 2/ Total FY 1992 outlays and unliquidated obligations may differ from Explanatory Notes because data was pulled at a later date.
- 3/ FY 1993 data available only through the first quarter.

### FOOD STAMP PRODUCTION

Question. The Senate Appropriations Committee Report on the fiscal year 1991 Agriculture Appropriations bill stated that "the Committee expects that food coupons used in the Food Stamp Program will continue to be manufactured and printed in the United States." This provision was cited in the 1991 Request for Proposal (RFP).

Is USDA considering no longer requiring that food stamps be printed and manufactured in the United States?

Answer. The Department intends to award a new contract for food stamps on the basis of full and open competition. Consistent with the requirements of the Competition in Contracting Act, the Trade Agreements Act and the Buy America Act, foreign offers will be considered, and food stamp coupon books may be printed outside the United States.

By statute, Congress has provided procedures, guidelines and authority for handling foreign competition for government contracts. Both the Buy America Act and the Trade Agreements Act set forth the responsibilities of agencies in relation to foreign entities when contracting for goods and services. Thus, there exists Congressional intent clearly expressed in statutes regarding the eligibility of listed (approved) foreign countries to compete.

We are aware of Report language that says: "The Committee expects that food coupons used in the Food Stamp Program will continue to be manufactured and printed in the United States." However, absent some statutory authorization by Congress permitting the USDA to exclude foreign firms, we must allow such foreign firms to compete.

Question. What are the security concerns of foreign food stamp production?

Answer. If food stamps were produced outside the United States, the manufacturer would be required to produce them under the same secure environment as is

required of the current manufacturer, American Bank Note Company. Also, the foreign company would be responsible for secure shipment of the finished food stamps to a United States port of entry.

Question. What would be the impact of foreign food stamp production on U.S. criminal laws on counterfeiting and misappropriation of food stamps?

Answer. Enforcement of the U.S. criminal laws regarding counterfeiting and misappropriation of food stamps is within the purview of the United States Secret Service and the Department of Justice. Thus, these agencies are the appropriate agencies to respond to your question. However, we have no reason to believe that foreign production of food stamps will have an impact on these laws. It would seem that policies and procedures currently in place for cooperation on similar matters between U.S. officials and those of foreign governments would operate as intended to provide effective enforcement.

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## QUESTIONS SUBMITTED BY SENATOR HARKIN

### NUTRITION AND PREVENTION OF HEALTH PROBLEMS

Question. I believe that one of the most glaring deficiencies in our health policy has been in the area of prevention. We now know that good nutrition is a key aspect of any prevention strategy for improving the health of Americans and holding down health care costs.

Can you tell me what plans FNS has for linking its nutrition programs to a broader strategy of prevention in our health policy?

Answer. USDA is committed to improving the health status of all Americans and coordinating with both public and private sector initiatives which emphasize the importance of prevention. This commitment is evidenced by USDA programs, research activities, and coordination efforts. USDA is the lead department responsible for providing nutrition education and information, a key prevention strategy, and conducting nutrition related research. The Department established a Nutrition Policy Committee to oversee and promote the implementation of nutrition research and education activities and strengthen coordination both within USDA and among other government agencies and outside groups. In recent years, the Department has developed stronger ties with other Federal agencies to coordinate plans and activities which emphasize prevention.

The Food and Nutrition Service plays a major role in the Department's efforts to promote better nutrition

through enhanced information and nutrition education. The major food assistance programs include components which emphasize consumer information and nutrition education. The WIC Program provides the largest single source of Federal nutrition education funding. An integral part of the WIC benefit package is education which emphasizes the importance of a balanced diet and is intended to help participants develop sound dietary practices. In addition, WIC nutrition education addresses the risks associated with smoking, alcohol and drug abuse and other behavioral practices which can be detrimental to one's health status. WIC provides referrals to health care services such as prenatal care, well child care and immunizations, essential preventative health care services. At the Federal, State, and local levels, the WIC Program is coordinated with initiatives to prevent infant mortality and low birthweight and expand immunization services. We are actively pursuing coordinated activities with the Bureau of Maternal and Child Health at the Department of Health and Human Services (DHHS) as well as the Centers for Disease Control.

The Food Stamp Program provides matching grants to States for nutrition education activities. FNS has adopted and is pursuing a five-year plan to enhance nutrition education for food stamp recipients. We will award special grants this year to develop new and innovative ways of providing nutrition education to food stamp recipients.

Currently, there are efforts to implement the Dietary Guidelines for Americans in the Child Nutrition Programs including the distribution of information to food service personnel, parents, and care providers. FNS has also been collaborating with the Department of Education and Department of Health and Human Services (DHHS) on efforts to develop and promote health education in schools. We believe nutrition education is a vital component of school health education. This year FNS released its strategic plan to enhance nutrition education activities through the Nutrition Education and Training Program.

The "Year 2000 Health Objectives" were developed by the DHHS as its national plan for health promotion and disease prevention. Several of the food assistance programs directly support the accomplishment of objectives to improve the nutritional status and dietary practices of Americans. In addition, USDA and DHHS have developed a joint Ten-Year Plan for Nutrition Monitoring and Related Research. Under this plan, USDA will collaborate with DHHS on nutritional surveillance and research activities to identify and assess Americans' nutritional status and dietary practices.

Breastfeeding is the optimal infant feeding method. Among other benefits, breastmilk possesses immunological



properties which prevent a variety of digestive and other diseases and allergic reactions in infants. Recognizing the importance of breastfeeding, USDA is collaborating with the National Breastfeeding Promotion Consortium on a national campaign to promote breastfeeding among the general public and health care professionals. A key objective is to foster and work through coalitions at the Federal, State, and local levels to promote the campaign and implement support activities.

In conclusion, FNS is involved in extensive efforts via service delivery, research, public information and education, and coordination activities to support and promote nutrition practices which support health promotion and disease prevention among all Americans.

Question. On Monday a survey of doctors and nurses was released which indicated that one in four older Americans is malnourished, and that half of all hospital patients 65 and older and two in five nursing home patients are malnourished. The link is clear between poor nutrition and greater susceptibility to health problems and impaired quality of life. And at a time we are working to control health care costs, this information on elderly nutrition is especially troubling.

What is FNS doing to address the nutritional needs of older Americans? -- I have in mind here not only nutrition programs, but efforts to provide education and information and to make nutrition an integral part of a prevention strategy in our health care policy.

Answer. FNS administers several food assistance programs encompassing a variety of services. While some are open to all needy persons, others specifically target the low-income elderly population.

The primary program created to assist the low-income population is the Food Stamp Program (FSP). Of households receiving food stamps, 17 percent have at least one elderly member. Approximately 7 percent of food stamp recipients are elderly participants. There are several provisions in place to facilitate elderly participation in FSP. They include applying by phone or, in some States, allowing delivery of coupons by mail. In addition, there is some general nutrition information available. We are currently working to update the nutrition information.

The Food Distribution Program on Indian Reservations, an alternative to the Food Stamp Program, also provides services to elderly participants. Approximately 39 percent of households participating have at least one elderly member. The program also includes a general nutrition education component including information about using donated commodities.

FNS also has several programs that are targeted directly to the elderly: the Nutritional Program for the Elderly (NPE), the Child and Adult Care Food Program (CACFP) and part of the Commodity Supplemental Food Program (CSFP).

The NPE is a component of the elderly services provided by the Administration on Aging (AOA). FNS subsidizes meals served in congregate homes and meals-on-wheels programs. The per meal reimbursement of 57.8 cents will be able to subsidize 247 million meals in 1993.

In November of 1987 Congress added an elderly component to Child Care Food Program. As a result, adult day care centers became eligible to receive reimbursement for up to two meals and one snack a day. FNS is examining this new program in the FNS Adult Day Care Study. Due to be released later this year, the study examines the types of services provided by participating centers, the types of foods offered, and the dietary intake of the elderly to determine CACFP's contribution to the elderly diet.

CSFP combines commodity assistance with nutrition education. Serving approximately 120,000 elderly a month, it also maintains a delivery service for homebound elderly. In addition, CSFP is required to refer participants to Medicaid, food stamps and Supplemental Security Income.

The elderly may also receive commodity assistance through other programs including Soup Kitchens/Food Banks and the Emergency Food Assistance Program. However, information on participation in these programs is not available.

Question. The quality of meals served to children in schools and child care is also a critical part of prevention. The Nutrition Education and Training program is specifically designed to improve the quality of meals served to children. Unfortunately, the program was gutted in the early 1980s, and we have been working to increase funding since then. The FY 1994 budget provides \$10.27 million for NET, up only slightly from the \$10 million appropriated for the program last year. Under the previous administration, the FY 1993 budget requested \$15 million for the program.

What is the rationale for this funding level for NET?

Answer. The previous administration requested an additional \$5 million for the Nutrition Education and Training Program (NET) in Fiscal Year 1993 in order to fund a special initiative benefitting preschool-age children. The increase was not approved by Congress. For Fiscal Year 1994, with many competing spending

priorities, the Administration has not included any special nutrition education initiatives and has not yet completed its policy review of this area. Instead, for this budget it has requested \$10.27 million for NET, the same amount as last year plus an inflation adjustment.

#### UNIVERSAL SCHOOL LUNCH STUDY

Question. USDA was directed last year to study the possibility of a universal school lunch and breakfast program in which all children could receive meals without a ticket system the paperwork and regulatory burden associated with keeping track of students who qualify for free or reduced price meals. The program would encourage more children to take part in the school meal programs.

Can you tell me who is conducting the study and when it will be presented to Congress?

Answer. The Food and Nutrition Service (FNS) is preparing a report in-house to be presented to Congress in October 1993.

Question. Does FNS have any preliminary observations or information about the universal school lunch idea at this point?

Answer. FNS is conducting a number of pilot projects to test ways to reduce paperwork in the National School Lunch Program (NSLP). Several sites, including Philadelphia, Pennsylvania; Jersey City, New Jersey; Salinas, California; and National City, California, are testing programs to provide meals at no charge to all students while basing Federal reimbursement on the numbers of free, reduced price and paid meals served to eligible children in each of the schools. For reduced price and paid meals served, the school district must make up the difference between the cost to produce the meal and the Federal reimbursement received.

Initial results from the pilot projects will be presented in an interim report to Congress which will be available this summer. In addition, information from these pilot projects will be included in the report on universal free school meals due to Congress in October.

#### SCHOOL FOOD SERVICE PAPERWORK

Question. One of the most common complaints I receive from school food service professionals is the huge paperwork and regulatory burden that they must bear in order to participate in the programs. The paperwork is supposed to protect against overpayments and waste, but from what I see this is a prime example of regulatory overkill.

What is FNS doing to reduce this paperwork and regulatory burden on schools in the federal nutrition programs?

Answer. In recent years the Department has undertaken initiatives to ensure sound management and adequate accountability in these important programs. In general these initiatives identified certain local practices, such as reviewing meal counts for reasonableness, which reflect responsible management. More recently, we developed a review system for State agencies to follow in conducting administrative reviews of local schools. This system, called the Coordinated Review Effort, established a consistent methodology for assessing schools' counting and claiming procedures and for observing meal services. None of these activities add any paperwork at the local level.

In response to concerns about paperwork, the Department has undertaken a number of initiatives to reduce the paperwork burden on local schools. We have implemented Direct Certification, under which schools may certify children for free meals based on direct contact with food stamp or Aid to Families with Dependent Children offices. By using Direct Certification, some large school districts have been able to reduce the number of applications processed by half. Moreover, the agreements between school food authorities and State agencies to operate the programs are now permanent and need to be updated only when changes occur, rather than annually as was formerly the case. We have also authorized a number of demonstration projects to test alternatives to the current requirements for eligibility determinations and meal counting and claiming. We will be reviewing the results of these tests to determine if broad changes to current procedures would be feasible. We continue to look for ideas to reduce the paperwork, and we welcome the opportunity to work with Congress to improve these programs.

#### SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN (WIC)

Question. I want to commend the administration for recommending full funding of the WIC program. Can you tell us what the funding requirements are for achieving full funding? What assurances do we have that these levels are sufficient to reach full funding?

Answer. The President has proposed to phase in full funding of WIC by the end of Fiscal Year 1996. We estimate that the Program will require \$3.287 billion in 1994, \$3.564 billion in 1995, and \$3.914 billion in 1996 to achieve this goal. The President's budget assumes that 7.5 million women, infants and children will participate in a fully funded program, which is about 80 percent of the number the Congressional Budget Office



(CBO) estimates will be eligible at the end of Fiscal Year 1996.

Question. I am also concerned that the WIC program may tend to discourage breastfeeding. As you know, I worked to include in the 1989 reauthorization a special breastfeeding initiative within WIC. Can you describe your breastfeeding promotion efforts and evaluations that have been made of the effectiveness of these efforts?

Answer. Because breastfeeding rates in WIC are low relative to the overall population, some critics have suggested that WIC discourages breastfeeding. In fact, since the early 1960's, breastfeeding has been less common among the lower socioeconomic groups in the United States. The lower rate in WIC reflects this broader social trend.

By regulation, WIC State agencies are required to spend each year a proportionate share of \$8,000,000 earmarked from WIC's appropriation on breastfeeding promotion and support; many States spend more. In fact, in Fiscal Year 1992, reported expenditures were \$15.7 million and actual expenditures may be far greater, given that States are not required to account for such expenditures beyond their target minimum amounts. WIC State agency activities include: establishing peer counseling programs, loaning out breast pumps, conducting training and conferences for WIC staff, sponsoring telephone help lines, publishing newsletters for both staff and mothers, coordinating with local hospitals to provide breastfeeding support right after delivery, and developing educational materials.

USDA provides support for breastfeeding promotion in the WIC Program through regulations and technical assistance. USDA also sponsors grants, research, publications, and cooperative efforts.

Since June of 1990, USDA has hosted meetings twice a year of the Breastfeeding Promotion Consortium to exchange ideas on how government and private health interests can work together to promote breastfeeding. Over twenty-five organizations participate in the Consortium, including health professional associations such as the American Academy of Pediatrics, advocacy groups such as La Leche League, other Federal agencies such as the U.S. Department of Health and Human Services, and the Healthy Mothers, Healthy Babies Coalition. This information sharing and networking has had some tangible results; State Task Forces are being formed and participating organizations are implementing joint projects partly as a result of contacts made at these meetings.

At the Consortium's recommendation, the Department is planning a national campaign to promote breastfeeding as the optimal method of infant feeding among the general

public and to create a supportive and accepting public climate. Legislation enacted in August 1992 authorizes USDA to solicit private donations to conduct the campaign.

USDA has provided funds to the U.S. Department of Health and Human Services for a grant to study the feasibility of implementing the Baby Friendly Hospital Initiative to implement hospital policies supportive of breastfeeding in the U.S.

The WIC Program has been criticized on occasion for undermining breastfeeding promotion efforts by making infant formula available. FNS believes that making formula available is appropriate because, first, after being provided information on the benefits of breastfeeding, women must be allowed to choose freely; and, second, ceasing formula distribution may put infant participants at nutritional risk. Our approach to promoting breastfeeding has been to educate women on the benefits of breastfeeding and provide adequate support for their decision to breastfeed; this will enable women to make an informed choice and carry out their decision successfully. We do, however, believe that WIC has a unique responsibility to actively promote breastfeeding through the WIC Program because USDA funds are used to purchase a significant proportion of the infant formula sold in the United States.

The following activities have been undertaken partly to address the potential disincentive to breastfeed which may result from making infant formula available:

- o Eight local WIC agencies have received a total of \$100,000 in grants to study the effectiveness of using locally donated incentives to promote breastfeeding.
- o In November 1992, FNS established a new, enhanced food package (VII) for breastfeeding women whose infants do not receive formula from the WIC Program. This package helps supplement the special nutritional needs of a woman who exclusively or mostly breastfeeds in addition to supporting her breastfeeding decision.

A recent FNS study using data from the 1988 National Maternal and Infant Health Survey suggests that participation in WIC may encourage breastfeeding; prenatal WIC participants who reported having received advice from WIC to breastfeed their babies were more likely to initiate breastfeeding than income-eligible nonparticipants.

## EMERGENCY FOOD ASSISTANCE ADMINISTRATIVE FUNDS

Question. The budget recommends \$123.2 million for commodities and \$46.2 million for administrative expenses related to distribution of commodities in the Emergency Food Assistance Program.

What is the reasoning behind these figures, and how do they compare to the estimated need, particularly in light of the record participation in the Food Stamp Program?

Answer. The budget recommendations for commodity procurement and administrative grants for the Emergency Food Assistance Program reflect an increase above the Fiscal Year 1993 appropriation to offset the effects of inflation. These additional funds and an additional \$40 million in the President's investment proposals, for a total of \$209.5 million, will be used to ensure that the program operates in a manner consistent with operations in Fiscal Year 1993. Anecdotal information from Emergency Food Assistance Program recipients, who often also participate in the Food Stamp Program, indicates that commodities are needed to tide them over until the receipt of their next food stamp allotment.

Question. I am informed that the organizations that distribute the commodities provided by the Emergency Food Assistance Program have found it hard to carry out their efforts with the limited amount of administrative money they receive. At one time the administrative funding was set at \$50 million. Would that be a more reasonable level for administrative funding?

Answer. For Fiscal Years 1992 and 1993, the Emergency Food Assistance Program administrative funding dropped from the longstanding appropriation of \$50 million to \$45 million. This reduction reflects the significant decrease in the amount of food made available for distribution. Specifically, in Fiscal Year 1984 more than \$1 billion worth of food was distributed using \$50 million of administrative funding. Since 1984, the amount of food available for distribution has dropped from a level of \$1 billion to approximately \$204.1 million in Fiscal Year 1992. This decrease is primarily a result of diminished surplus commodities. Notwithstanding the requested increase in the food appropriation for Fiscal Year 1994, the total value of food available under the program constitutes only a fraction of the value of food distributed in past years. Therefore, we believe that the level of administrative funding being requested is reasonable.

## FOOD STAMP STUDY

Question. Last year, the Committee directed the Secretary of Agriculture to conduct a study of the relationship of economic circumstances and trends on

participation in the Food Stamp Program. Can you tell me what is the status of the study?

Answer. Our work on this study is underway. We are looking for differences between the characteristics of households that entered the Food Stamp Program (FSP) in 1986-1988, the end of a period of economic growth, and households that entered during the recession of 1990-1991 and the weak recovery that has followed. We are investigating changes in the demographic and economic characteristics of households in the month they enter the FSP and the employment and income status of food stamp households for the 8 months prior to food stamp application.

Question. When will it be submitted to the Committee?

Answer. The final report will be available this summer.

Question. Do you have any preliminary information that you can now provide the Committee?

Answer. We are eagerly awaiting the results of the study and will forward our report to the Committee as soon as it is available.

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## QUESTIONS SUBMITTED BY SENATOR KOHL

### WIC PROGRAM AND HEALTH CARE

Question. Through its nutrition programs, USDA is a very important partner in public health in this nation. Comprehensive health reform is likely to place a significant emphasis on prenatal and postnatal care and prevention. Given the role that the WIC program plays in the outreach and nutritional service to low-income pregnant women, how might we draft legislation to maximize the WIC network? To the extent that the WIC Program will be coordinated with the health care delivery system, what additional infrastructure and service delivery needs should be addressed?

Answer. Much of the WIC Program's success is a result of its role in acting as an adjunct to health care. WIC serves as an effective "gateway" to health services for low income women, infants and children. In this regard, WIC in the past has relied primarily on existing space, facilities and staff in local agencies. However, the ability of many local agencies to continue to expand, and to continue to offer quality services, is currently strained by facility capacity, availability of trained professional staff, the ability of the public health care system to accommodate increased WIC



referrals, and automated data system capacity. In some instances, these obstacles have been severe enough to preclude the expenditure of available WIC funds. We are conducting a study to determine what proportion of clinics have these problems. Obstacles include:

- o Physical space: To accommodate the expansion in participation that would result from full funding, local program operators may need additional physical space to provide services to WIC participants. More and more frequently, State and local agencies are confronted with considerable obstacles in securing adequate facilities in which to operate the WIC Program.
- o Staff: Some WIC State and local agencies have found it difficult to attract and retain qualified nutritionists, dieticians and other health care professionals to deliver WIC services, including nutritional risk assessments and referrals. The Department is undertaking activities to promote WIC as an attractive employment option for nutritionists and other health professionals.
- o Computer capacity: To effectively manage participation and improve the health and well-being of its clients, the WIC Program must coordinate its efforts at the local level with other health and social programs, such as immunizations, drug counseling, prenatal care, Medicaid, Food Stamps and Aid to Families with Dependent Children. Effective computer systems would facilitate multiple program coordination and allow WIC agencies to more efficiently absorb increased caseloads.
- o Other health care services: As noted above, WIC is a gateway program that attracts a low-income, at-risk population at an especially vulnerable period of development with tangible food benefits. Once in "the system", WIC participants are provided less tangible but not less critical services such as nutrition education and appropriate and relevant referrals for prenatal care, immunizations, substance abuse counseling and lead poisoning screening. The most effective referrals are to services on site or at a nearby convenient location. For WIC to continue to provide effective referrals while serving additional participants, there must be an available and accessible supply of health care services, facilities and providers.

States receive \$809.2 million (25 percent of appropriation) in 100 percent Federal administrative funding with no matching requirement. We are working with States to help them use these funds to solve these problems.

## CHILD CARE PROGRAM ELIGIBILITY

Question. My understanding of some of the child care feeding programs is that they are tied to income eligibility. Additionally, some providers must demonstrate that 20% of the children in their program are being financed under the Title XX block grant. Since that policy was established, we have created numerous child care funding streams, for most all of which poverty levels are used as eligibility criteria. It seems to make sense to change the feeding program requirement from reflecting a program to an income eligibility factor. This appears to be consistent with the original intent. Senator McConnell and I have worked on this for the past few years. Is such a change something that you believe is worthy of support and action?

Answer. Under the current statute, for-profit child care centers may participate in the Child and Adult Care Food Program (CACFP) only if 25 percent of their enrollment or licensed capacity, whichever is less, receives compensation under Title XX of the Social Security Act. This provision was enacted to ensure that available Federal dollars were targeted to those most in need. In the recent past, there has been concern that for-profit centers are losing their eligibility for CACFP because some States are changing their day care funding support for children of low-income families from Title XX to the other funding sources to which you allude. As you know, Congressional awareness of this situation resulted in the authorization of two statewide demonstration projects, currently underway in Iowa and Kentucky, which allow CACFP participation of for-profit child care centers in those States if at least 25 percent of their enrollees are eligible for free or reduced price meals under the USDA income eligibility guidelines. We are reviewing the results of the demonstration. Since we do not require participating centers to charge less to low-income children, this evaluation is not straightforward and easy.

## STUDENT ELIGIBILITY FOR FOOD STAMPS

Question. Last year, as part of the Higher Education Act, Congress modified food stamp eligibility rules to disregard certain types of student aid. While I understand our desire to make sure that college students, and particularly low-income students are adequately supported during their education, I am concerned about the incentives we are creating here. It appears as if, all other things being equal, there is an incentive here for students not to work to supplement their income. A greater fear is that we will further disregard certain types of federal aid for purposes of food stamp eligibility, substantially increasing the cost of the program. Do you care to comment on the new disregard provisions?

Answer. Nothing in the proposal would change the program's stringent rules that make all but certain limited groups of low-income students ineligible for the Food Stamp Program. Indeed, working 20 or more hours a week is one of the criteria under which a low-income student could be eligible to receive food stamps.

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## QUESTIONS SUBMITTED BY SENATOR COCHRAN

### SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN (WIC)

Question. The President's budget proposes to move toward full funding of the WIC program by the end of fiscal year 1996.

What is your definition of "full funding" of the WIC program? Would all eligible for the program be served by the end of fiscal year 1996 or are you assuming that only a percentage of the eligible population would apply for this assistance? What percentage?

Answer. The Administration defines a fully funded WIC program as being funded at a level which allows the Program to serve all eligible persons who apply for WIC services. Consistent with participation rates for other Federal assistance programs, neither we nor the Congressional Budget Office (CBO) assume that all who are eligible for WIC will apply to participate. CBO estimated that in 1996, 7.5 million of the estimated 9.3 million eligible women, infants, and children (or about 80 percent) would participate if the program were fully funded.

Question. What is the total investment which would be required to achieve full funding by the end of fiscal year 1996 and how many participants are you assuming would be served by this program when fully funded?

Answer. The President's proposal requests \$3.3 billion in Fiscal Year 1994, \$3.6 billion in Fiscal Year 1995, and \$3.9 billion in Fiscal Year 1996 to achieve full funding of WIC by September 1996. This is a total of \$1.7 billion over current services for the 3-year period. FNS and CBO estimate that about 7.5 million women, infants, and children would participate in the WIC program if it were fully funded.

Question. How many people are currently participating in the WIC program? What percentage of those eligible for WIC are currently applying for and receiving benefits under this program? What percentage of eligible infants are currently being served? What percentage of eligible pregnant women are currently being

served? What percent of eligible pre-school children are currently being served?

Answer. In Fiscal Year 1992 WIC monthly participation averaged 5.4 million women, infants and children. WIC Fiscal Year 1993 average monthly participation through February was 5.7 million. Because USDA's most recent estimate of eligibles is for 1991, current coverage estimates are not available. Based on the current population survey, in 1991 about 59 percent of all fully eligible women, infants and children were served. Coverage in 1991 was about 90 percent for pregnant women and infants, about 50 percent for postpartum and breastfeeding women and about 45 percent for children, ages 1-4.

Question. Appropriations language is proposed for fiscal year 1994 to allow the Secretary to waive regulations governing the WIC program allocations to ensure that funds are received by States most in need. This discretionary authority is requested until revised allocation regulations have been issued.

What revisions do you propose to the WIC Program allocation regulations? When will revised regulations be issued?

Answer. The most pressing issue to be handled by revised regulations is the removal of the 15 percent capping provision, which currently caps (at 15 percent above the prior year grants adjusted for inflation) the increase in funding for food that any State may receive from one fiscal year to the next. This provision has outlived its original usefulness and now serves to prevent some severely underfunded States from receiving their fair share of funds from allocations and reallocations.

The current formula may give additional funds to some States after they reach full funding while other States are further from their goal. Revisions to regulations would ensure that States furthest from full funding get priority.

The package of revised regulations will include other technical changes intended to simplify the funds allocation process and delete provisions no longer considered necessary. We are planning to issue proposed regulations in Fiscal Year 1994, although the regulatory process is often lengthy and may extend beyond that point.

Question. I understand that the Cash Management Improvement Act which was signed into law last year fails to consider the uniqueness of the WIC Program's income. The Act does not take into consideration income from infant formula rebates or other program incomes, such as monies collected from vendors from overcharges, civil



money penalties on vendors and collections from participants obtaining unauthorized benefits. States maintain that it is unreasonable to expect them to spend such monies in one day to avoid paying interest to the Federal government on these funds.

Do you agree that this is a problem? Should these categories of funds received by the WIC program be exempt from the Cash Management Improvement Act? If so, is the Administration proposing action to remedy this problem?

Answer. There are some strict definitions of program income for Cash Management Improvement Act (CMIA) purposes. Program income is additional funding generated by program operations; civil money penalties are one type of program income. For Fiscal Year 1992, States collectively received about \$600,000 in program income. They may use program income for any allowable program cost. By contrast, rebates are applicable credits to WIC Program costs. They originate as Federal WIC food funds and never lose their identity as such; accordingly, they must be used for WIC food costs and are otherwise subject to recovery and reallocation. For Fiscal Year 1992, infant formula rebates generated approximately \$750 million and allowed program participation to increase by approximately one million additional participants at no added cost to the Federal government. Rebates are an integral element in financing the WIC Program.

Public Law 101-147 and WIC regulations mandate States to engage in cost containment measures designed to reduce expenditures for WIC Program foods. The most prevalent of these cost containment activities is the infant formula rebate initiative, whereby State agencies generally receive on a monthly basis a manufacturer's rebate for each unit of infant formula used in the program. The Department of Treasury's Financial Management Service has determined that WIC rebates are to be considered as refunds and therefore subject to the interest provision of the CMIA. Under this interpretation, States will incur an interest liability to the Federal government from the time these funds are deposited in State accounts to the time they are expended for program purposes.

FNS believes that some States may perceive themselves as being penalized for obtaining good rebates. In response to the proposed regulations implementing the CMIA, FNS recommended to the Treasury Department that WIC rebates be exempt from interest liabilities. The Treasury Department's current interpretation is that exemptions must be contained in a program's legislation because the implementing regulations do not allow them to grant exemptions. FNS recently sent a letter to the Commissioner of the Treasury Department's Financial Management Service asking for a reconsideration of an exemption for WIC rebates under the grounds that there appears to be no cost neutral means for States to handle

WIC rebate funds. While we agree with Treasury that interest earned on these rebates should not go to State General Funds, we do not want States to perceive the CMIA as "punishing" them for doing a good job in getting rebates. We will continue to work with Treasury to develop a good solution.

Question. The Department's evaluation of the Farmers' Market Coupon Project, released in April of 1991, indicated that the project had only a modest positive effect on farmers' incomes, and on the consumption of fruits and vegetables by women participating in the WIC program. You are proposing to continue this program at its current \$3 million funding level in Fiscal Year 1994. Has this program proven to be more successful in terms of its benefit to farmers and WIC participants? What are your more recent assessments of this program?

Answer. FNS has not done a formal assessment of the Program since the 1989 evaluation was released in April 1991.

#### FOOD STAMP PROGRAM

Question. The President's budget indicates that a \$603 million Food Stamp investment is being requested to help offset the effects of the proposed energy taxes on low-income households.

Would this additional funding to increase food stamp benefits be requested if the proposed energy taxes were not included in the President's budget?

Answer. Even without the energy tax proposal, these program reforms are very much needed. Recent poverty statistics show the highest number of Americans in poverty in more than 25 years, and more people than ever are turning to the Food Stamp Program for help to buy food. These are signs that the need for food assistance continues to grow.

In addition to its role as an offset to the proposed energy tax, the proposed spending increases serve other important goals. The Administration's proposals will help reduce hunger among poor children, simplify and improve program administration, and help ensure the integrity of the Food Stamp Program.

Question. If the intent is to minimize the impact of the energy taxes on low-income households, wouldn't it be better to do this through the tax code rather than through food stamp benefit increases?

Answer. The EITC changes will help families in the tax system. Rewriting the tax code to provide some relief through the income tax system would make little difference to millions of low-income families and

individuals, since many low-income households have no taxable income and thus do not file tax returns. Raising benefits in assistance programs that reach large numbers of the low-income population is a more effective way to compensate these households for their higher energy costs. Since the Food Stamp Program assists 1 in 10 Americans, it is a logical program to expand for this purpose.

Question. The fiscal year 1994 budget indicates that legislation will be submitted to increase Food Stamp benefits by \$603 million in fiscal year 1994. In addition, it indicates that USDA and the Department of Health and Human Service (DHHS) have jointly developed a legislative proposal to set federal cost sharing of State administrative expenses at 50 percent for food stamps, AFDC and Medicaid. This will result in \$20 million in Food Stamp Program savings in fiscal year 1994.

Would you please describe these legislative proposals more fully. When will this proposed legislation be submitted to the Congress?

Answer. As you say, the President's Budget indicated that there will be proposed legislation forthcoming to set a uniform Federal matching rate of 50 percent for States' costs of administering the Food Stamp, Aid to Families with Dependent Children, and Medicaid Programs. The coordinated bill for the three programs should be forwarded to the Congress shortly; however, the food stamp portion of this legislation was included in the Department's April 27, 1993, proposed legislation for the Food Stamp Program, so I can provide those details.

Under the proposed food stamp legislation, enhanced funding for planning, designing, developing, or installing automated data processing and information retrieval systems would be reduced from the current level of 63 percent to 50 percent. The proposal would also reduce Federal funding for State agencies' costs of investigating and prosecuting food stamp fraud from the current 75 percent to 50 percent. Finally, the proposal would reduce Federal funding for State agencies' use of the Systematic Alien Verification for Entitlement program administered by the Immigration and Naturalization Service from 100 percent to the normal 50 percent.

Further, the proposal would authorize the Secretary to grant "hardship waivers" delaying the April 1, 1994, effective date for State agencies whose legislatures are not scheduled to meet in Calendar Year 1994 and that demonstrate that their Constitutions and laws do not provide a mechanism for raising the additional State funds that this bill would require before the next regular legislative session.

Finally, enhanced funding would remain available for carrying out certain aspects of the employment and training program, administering the Food Stamp Program on Indian reservations, and as an incentive for improving payment accuracy by State agencies.

Question. What will be the net impact on the states of the 50-50 cost share proposal for food stamps, AFDC, and Medicaid administrative expenses?

Answer. The President's Budget for Fiscal Year 1994 assumes that most costs of administering the Aid to Families with Dependent Children, Medicaid, and Food Stamp Programs will be reduced to a uniform 50 percent Federal funding rate. The overall impact of the change is estimated to be a reduction of \$1.8 billion in Federal funding of States' costs over four fiscal years.

Question. As I understand it, the \$20 million in Food Stamp Program savings results from the elimination of enhanced federal matching for State anti-fraud activities (from 75 percent), automated data processing development (from 63%), and Systematic Alien Verification of Eligibility activities (from 100 percent). The Food Stamp Program is a federal program administered by the states. Enhanced federal cost sharing of these activities has provided the "carrot" so to speak for states to undertake these activities.

What will be the incentive for States to initiate or maintain their efforts in these areas if the enhanced federal cost share is eliminated as proposed?

Answer. Incentives other than enhanced funding do exist. For anti-fraud related activities, a monetary incentive will remain--that is State agency retention of a portion of the sums collected from fraud claims. Through Fiscal Year 1995, State agencies retain 25 percent of sums collected; thereafter, the retention rate returns to 50 percent. In order to retain these sums, State agencies will have to establish and collect the fraud claims, which should result in continued efforts in the area of fraud. These collections are further expected to increase as States implement Federal tax offset programs. Tying fraud funding more closely to actual results (i.e., claim collected) as opposed to activity (i.e., funding of investigative costs), makes sense to us as program administrators. With regard to the development of automated data processing systems, while the monetary incentive of enhanced funding would be discontinued, the important incentive of achieving a more efficient operation would remain.

Question. Currently, States with low error rates can qualify for an increase in the normal 50 percent Federal match up to a maximum of 60 percent. Are you also proposing to eliminate this enhanced Federal match which rewards States for high payment accuracy rates?



Answer. No, the Department's legislative proposal would leave this important incentive intact.

Question. Illegal trafficking of food stamps remains on OMB's list of high risk areas for management improvement. The President's budget indicates that FNS has begun a number of actions to counter this problem at a cost of \$5.750 million in fiscal year 1993. The budget indicates that the next steps include (1) procuring equipment to enhance trafficking investigations; (2) continuation of the Program Fraud Civil Penalties Act pilot process; (3) updating the Retailer Policy handbook; and (4) continued increased funding for investigative and program staff required for enforcement action improvements.

What is the total amount of funding included in the fiscal year 1994 request to address this problem? Please indicate the funding level requested for each of the four next steps recommended in the President's budget as compared to fiscal year 1993.

Answer. FNS has revised its Fiscal Year 1993 budget for funds related to the high risk area of food stamp trafficking to \$6.460 million. These funds are allocated as follows:

- o \$4.9 million to fund 45 investigator full-time equivalents (FTEs) and 18 senior investigator positions plus support and related activities to track, investigate and sanction food stamp trafficking abuse.
- o \$950 thousand to fund the continued retailer database update.
- o \$610 thousand to fund 13 FTEs and other expenses related to Electronic Benefits Transfer (EBT) implementation.

The total amount of funding included in the FY 1994 request to address this problem is \$6.466 million, to be allocated as follows:

- o \$4.924 million to fund 45 investigator FTEs and 18 senior investigator positions plus support and related activities to track, investigate and sanction food stamp trafficking abuse.
- o \$935 thousand to fund the continued retailer database update.
- o \$607 thousand to fund 13 FTEs and other expenses related to EBT implementation.

The requested funding levels do not correlate directly to the next steps indicated in the progress section of the report. The enhancement of the Agency

automated database and investigator access to it is a continuous process requiring a semiannual collection of sales data from retailers and the phased-in purchase of notebook computers for investigators. The initial round of retailer data updates is scheduled for completion in December 1993, and approximately one-half of the authorized retailers will have data updated each year after that to keep the database current. Eighteen notebook computers, with related software and accessories, have been provided to investigators and plans are to procure approximately 12 more per year for the following 3 fiscal years to automate the entire investigator staff. A working draft of the Retailer Policy handbook update was distributed in February 1993 and it is targeted to be finalized in June 1993.

The Program Fraud Civil Remedies Act (PFCRA) test case initiated by the Department's Office of Inspector General (OIG) has been dropped by the Office of General Counsel (OGC) because of action taken in a civil settlement. Since by law OIG must recommend cases for PFCRA action and OGC process them, the only role for FNS is to encourage action. At this point, it appears that PFCRA will not play a significant role in Agency efforts to combat and sanction retailer trafficking. However, in its place, FNS has been successfully promoting the expansion of civil prosecution by United States Attorney Offices against food stamp traffickers under the False Claims Act. Civil prosecution of food stamp trafficking cases involving the FNS Compliance Branch has resulted in 82 negotiated settlements with retailers in fiscal years 1992 and 1993 involving over \$1 million. FNS is actively working to promote and expand this activity to United States Attorney Offices nationwide.

Question. The budget requests a \$6.250 billion advance appropriation for the Food Stamp Program for the first quarter of fiscal year 1995. Assuming that regular appropriations bills are signed into law prior to the beginning of each fiscal year, why is an advance appropriation required?

Answer. Advance appropriations are requested to ensure continuous funding for the program at the beginning of the fiscal year. This will give the Food Stamp Program the same treatment as the Aid to Families with Dependent Children (AFDC), Medicaid and Supplemental Security Income (SSI) Programs.

#### NATIONAL SCHOOL LUNCH PROGRAM

Question. What is the status of the study on the various options for implementing and funding a universal-type school lunch and breakfast program? When will you have preliminary results from this study?

Answer. The Food and Nutrition Service is currently preparing the report to be presented to Congress in October 1993.

Question. Proponents of a universal school lunch and breakfast program indicate that such a program would eliminate the current welfare stigma currently attached to participation in these programs, reduce the overwhelming paperwork burden now placed on schools, and benefit students--not only from a nutritional standpoint but by better preparing them to learn. Are these issues being addressed in the study?

Answer. The study will examine factors which affect the decisions to apply for program benefits and the decision to participate on any given day. It will discuss preliminary results from the Paperwork Reduction Pilot project which includes several pilot sites that are testing non-pricing programs where schools claim Federal reimbursement based on the percentage of applications on file for free and reduced price meals. The results of these pilots will provide information on the paperwork associated with the demonstrations as well as the impact on program participation of providing meals free. We are in the planning stages of a study which will look at issues of stigma in more depth. Results from this study should be available in the summer of 1994. We also will be releasing a detailed analysis of the nutritional quality of the National School Lunch Program and School Breakfast Program compared to alternative lunches and breakfasts. This report will be released later this year. We do not, however, have any research underway that looks at the relationship between program participation and learning.

Question. What percentage of low-income children eligible for the school lunch program now fail to apply for the program?

Answer. FNS estimates that there were 2.7 million eligible non-applicant children in 1990--representing about 6 percent of all children in the National School Lunch Program. These estimates are based on the March 1991 Current Population Survey (CPS) of 60,000 households nationwide in which income is sometimes underreported. FNS is currently planning a study that looks specifically at why eligible households do not apply for program benefits.

Question. I understand that in the last few years, approximately 200 schools have chosen to terminate their participation in the National School Lunch and Breakfast Programs. Is this accurate? If so, why have schools elected to drop out of the program?

Answer. I understand that the American School Food Service Association released a list of "dropout" schools earlier in the year which contained approximately this

number of schools. As you know, as part of the Farm Bill reauthorization, FNS is conducting a study of school dropout. Results from this study, which should be available early next summer, will include data on the number of dropout schools.

However, I must emphasize that there is no evidence that school participation in the NSLP has been on a downward trend. School participation has remained stable at about 87,000 since 1990. In 1990, 86,961 schools participated, in 1991, 87,561, in 1992, 87,543 and 87,538 in 1993. Thus while a small number of individual schools may be leaving the program, they are being offset by others joining it. In addition, school participation in the School Breakfast Program has been increasing substantially during this period, rising from 38,274 in 1990 to 49,576 in 1993--an increase of nearly 30 percent.

Currently, the only information we have on the reasons why schools leave the program is anecdotal. However, in our upcoming school dropout study, we will be collecting detailed information on why schools leave the program and who is involved in that decision.

Question. For years, questions have been raised about the nutritional quality of meals served through the school lunch program. I understand that a USDA study completed last year confirmed that school lunches are not meeting Federal dietary guidelines. What were the study's findings? What is the Department doing to see that school meals meet the Dietary Guidelines for Americans?

Answer. The USDA completed and distributed the Child Nutrition Program Operations Year Two study in 1992. For the dietary component of the study, USDA collected data at 60 schools located in 20 school food authorities, but this sample was not nationally representative of school meal service across the country. USDA is currently completing a School Nutrition Dietary Assessment Study which does collect similar information from a nationally representative sample.

Data on the nutrient content of the National School Lunch Program (NSLP) and School Breakfast Program (SBP) meals for the 20 school districts were collected in spring 1990. Although fat and saturated fat were evaluated in light of the Dietary Guidelines for Americans, it should be noted that these guidelines were not released until November 1990. This study found that the average proportion of calories from fat for the average meal was approximately 38 percent; the Dietary Guidelines recommend 30 percent or less of calories from fat. The average proportion of calories from saturated fat was approximately 15 percent; the Dietary Guidelines recommend 10 percent or less. The study also found that NSLP meals were high in nutritional quality (nutrient dense) and balanced across a number of key nutrients.



USDA is committed to making improvements in the nutritional content of school meals. Specifications for USDA donated commodities have been revised to reduce the level of fat. The Department recognizes that more improvement needs to be made before we reach the nutrition goals for the year 2000. However, USDA must plan improvements for the NSLP in ways that keep children interested in eating school lunches while improving the nutritional profile of the foods consumed.

Question. One way to reduce fat in the school lunch diet is to serve low-fat and skim milk rather than whole milk. I have joined some of my colleagues in introducing legislation to remove the statutory whole milk requirement to enable local school food service professionals to determine what type of milk to serve children in their school lunch programs. Do you support this proposal?

Answer. The Department believes that the current statutory requirement that whole and low-fat milk be offered in all school lunches should be amended. The required offering of whole milk clearly makes it difficult for schools to reduce the fat content of their lunches. For the same reason, however, we feel that retention of a low-fat or skim milk requirement has merit. Retaining this portion of the requirement would, we believe, help schools reduce fat, as well as lessen the operating burden on schools since they would not have to maintain large inventories of two kinds of milk (or three if the school elects to offer skim milk as well).

#### NATIONAL FOOD SERVICE MANAGEMENT INSTITUTE (NFSMI)

Question. The President's budget contains a separate line item of \$2 million to implement the Dietary Guidelines. In 1992, we asked the Department to utilize the expertise and services of the National Food Service Management Institute to help provide information and training to child nutrition personnel.

How have you used the National Food Service Management Institute and how do you plan to use the Institute to provide education and training to child nutrition personnel on implementing the Dietary Guidelines for Americans?

Answer. Implementation of the Dietary Guidelines for Americans in the Child Nutrition Programs will be accomplished through multiple means and methods. The National Food Service Management Institute has been briefed on all current FNS activities as well as future initiatives. The goals of implementing the Dietary Guidelines are considered by the Institute in its yearly work plan. The National Food Service Management Institute has incorporated the implementation of the Dietary Guidelines for Americans into its 1992 and 1993 "Statement of Work". To date it has provided a

procurement conference related to the Guidelines and a sequence series of children's "Barely Bear and the Guidelines." A total of six satellite conferences are planned on the subjects, four of which have been completed. Videos and training materials on the conferences were distributed at the American School Food Service Association meetings.

Question. Providing nutritious meals to children is one of our goals and teaching them to adopt healthy food practices through linkage of nutrition education and nutritious meals is another. The President's request of \$10 million for nutrition education will help to do this.

How do you plan to encourage states to use the National Food Service Management Institute to maximize the use of the Nutrition Education and Training (NET) funds in order to avoid duplication of projects and ensure maximum coverage of nutrition education?

Answer. The Department initiated a strategic planning process for the NET program in March, 1992. The executive director of the National Food Service Management Institute (NFSMI) was one of the approximately 30 representatives who drafted The Strategic Plan for Nutrition Education which was published in March, 1993. The Plan includes ten national planning goals for the NET program. Strategies and tactics for implementing many of the goals emphasize collaboration with the NFSMI. Two States (Colorado and Kansas) have already used NET funds to contract with NFSMI to develop a nutrition education curriculum for elementary school level children on the Dietary Guidelines and the Food Guide Pyramid. The president of the National Association of State NET Coordinators (NASNET) is a member of NFSMI's National Advisory Council which provides input on the Institute's annual statement of work and strategic plan.

Question. We hear a lot about the school meals containing too many fat calories and the need for managers to plan meals that limit the amount of fat calories. This will require a nutritional analysis of meals planned.

How will you use the resources of the National Food Services Management Institute to help train managers and directors to calculate nutrient values?

Answer. Schools are not required to analyze menus for nutrients. Currently some schools are doing so as a way to monitor their efforts of reducing fat while maintaining the required nutrients and calories. The effort to teach schools to do this will be a major objective of the FNS Demonstration project for Nutrient Standard Menu Planning (NSMP). Currently, FNS is developing a Nutrient Database for Child Nutrition Programs. This database will be available in the Spring of 1994. The National Food Service Management Institute

will receive a copy of this database to incorporate into their software systems. The Institute will be encouraged to develop software, provide data bank accessibility to food service practitioners and use it for further development of school food service applications.

Question. Have you considered the potential of using the Super Computer Center in Mississippi as a resource for school systems to use in securing nutrient calculations? I understand that the Super Computer Center can process up to 800 million floating point instructions per school.

Answer. The Department recognizes the value and availability of the University of Mississippi's Super Computer Center. The use of this powerful computer can be explored with input from the National Food Service Management Institute. However, the super computer's capacity far exceeds the capabilities required for simple nutrient calculations. Nutrient analyses of menus in schools requires personal computer-based software developed competitively by industry or universities, etc., that can meet the needs of school managers at the local level. A national database of food items used in the child nutrition programs is currently being developed under an interagency agreement between the Human Nutrition Information Service (HNIS) and FNS. HNIS has the technical nutrient data experts on staff to maintain and update the system. Copies of this database will be available to schools, as well as to the Institute, upon completion. We encourage schools to acquire computer systems that meet their needs. Nutrient analysis is a part of such a system.

Question. Has the USDA considered high performance computing and visualization in conjunction with heuristics and simulation for solving problems related to knowing how to provide nutritious meals that are acceptable to and consumed by the child?

Answer. The Food and Nutrition Service has considered the type of computer modeling capacity needed for meal planning in the child nutrition programs. Microcomputers at the headquarters of the Food and Nutrition Service can handle many of the fundamental modeling tasks, and mainframe computer services are available from the Kansas City Computer Center. In addition, computer modeling expertise and computing capability are available from other USDA agencies such as the Economic Research Service and the Human Nutrition Information Service.

The current constraints on computer modeling for the child nutrition programs relate to the limited availability of data on the variables which are needed to make best use of the available computer hardware and software and advanced computer modeling applications. The Food and Nutrition Service has recently entered into

an agreement with the Human Nutrition Information Service to help develop one of the key data components--a nutrient data base specific to the child nutrition programs. We are also nearing completion of a national study of school children which will provide current data on the usage of foods and nutrient contribution of the school nutrition programs.

Question. The Congress established the National Food Service Institute to conduct activities to improve child nutrition programs which are federally funded. As we have listened to President Clinton's concerns for improving the delivery of health and education services to children and recognize the role of nutrition in both programs, it is obvious that a new paradigm must be established for child nutrition programs.

How can we use the National Food Service Management Institute as a catalyst in changing the paradigm--in helping school administrators and health professionals to view child nutrition programs as a value-added service rather than as a support service?

Answer. The National Food Service Management Institute can help bridge the gap that lies between health and education services to children. The Executive Office of the Institute currently maintains a leadership initiative that supports the development of the child nutrition programs as integral components of the education and health care systems. For example, a national conference conducted by the Institute on feeding children with special needs brought perspectives from the Departments of Education, Health and Human Services and USDA together to focus on the needs of this special population. FNS will use the Institute's findings on the "Feeding of Children with Special Needs Survey" as a basis for the development of guidance material for local schools. Future efforts include coordinating with the Department of Health and Human Service's Center for Disease Control on a comprehensive health education curriculum, and collaborating research with the USDA-funded Children's Nutrition Research Center at Baylor University. NFSMI's presence and involvement at various school associations meetings and major conferences for superintendents, principals, and school business officials have begun to introduce the Institute's mission for the child nutrition programs. That mission is to provide the opportunity for every child to enjoy the benefits of effective child nutrition programs with healthy food choices, served in pleasant surroundings by compassionate and empowered people. This supports the Education ideal of focusing on preparing children so they can be "ready to learn". The value of nutrition education and a healthy lifestyle for children as a "value-added service" rather than a food assistance "support service" is inherent in the Institute's mission.



Question. The President's budget request for child nutrition programs is for over \$7 billion for fiscal year 1994. It is my understanding that the National Food Service Management Institute is conducting research and preparing training that would result in cost benefits to the federal government. I note that the fiscal year 1994 budget request for the Institute maintains its fiscal year 1993 funding level. As you move forward in achieving the Presidents's goals, will you support continued use of the National Food Service Management Institute as a resource that can help to maximize the funds appropriated?

Answer. The National Food Service Management Institute is presently involved in several studies and training initiatives that support FNS's goals. FNS has two staff assigned to the Institute's National Advisory Committee. It is customary for the Institute to explore and develop future tasks to be delivered under the grant agreement through these Advisory meetings. FNS presents briefings to the Institute on current projects, as well as future plans during these planning sessions. FNS also encourages the Institute to initiate ideas and programs that will meet the needs identified by their research. FNS continues to provide staff to review the Institute's proposed tasks as well as the Requests for Proposal that the Institute develops to ensure that there is no duplication of effort. When duplication is found, the Institute is encouraged to direct funds toward other priorities already targeted in their statement of work.

Question. The National Food Service Management Institute's national satellite network has successfully delivered four national training programs on "Managing Child Nutrition Programs and Healthy Food Practices." Each program has reached more than 10 thousand child nutrition personnel.

As you identify needs for training and information, do you see other ways that USDA could use this network? Are there ways that you could use this technology to conduct meetings of state agency administrators and food service directors to help set direction and provide information?

Answer. Training of local school lunch directors is the responsibility of the State agencies and upon their request the FNS Regional offices. National projects initiated by the National Office may involve training at the national level. The Institute presently budgets approximately \$20,000 to cover the cost of each satellite conference. If the subject matter fits this delivery system and the money is available, FNS is not opposed to using satellite training methods. Cost efficiency as well as quality of delivery to meet the training goals will be primary in this decision. The Institute is free to market itself to individual States to use its resources for the development and delivery of training which could include the use of the satellite facilities.

## NUTRITION PROGRAM FOR THE ELDERLY

Question. The Older Americans Act of 1992 requires the Secretary of Agriculture to maintain an annually programmed level of assistance for the nutrition program for the elderly equal to the greater of (1) the current appropriation divided by the number of meals served in the preceding fiscal year; or (2) 61 cents per meal adjusted annually beginning with FY 93 to reflect changes in the CPI. In accordance with this statute, what is the authorized per meal reimbursement rate for fiscal year 1994?

Answer. The current Fiscal Year 1993 per-meal reimbursement rate is \$.5780 for the Nutrition Program for the Elderly. This represents the highest rate the Department believes could be sustained throughout the fiscal year with the current appropriation. However, if it appears that participation for the year will be significantly lower than anticipated, we will increase the rate. In any event, the entire Fiscal Year 1993 appropriation will be used for per-meal reimbursement, as required by law. Based upon the Department's current estimates, as a discretionary account, the Fiscal Year 1994 authorized reimbursement rate would be \$.5780.

Question. The fiscal year 1994 request for the Nutrition Program for the Elderly assumes there will be no increase in the number of meals served above fiscal year 1993 and maintains the current fiscal year 1993 per meal reimbursement rate of \$.5780.

What is the basis for these assumptions? Why hasn't the fiscal year 1994 per meal reimbursement rate been increased to the newly authorized rate? What additional amount would be required to fund the per meal rate authorized for fiscal year 1994?

Answer. The assumptions used for Fiscal Year 1993 were also used for Fiscal Year 1994. A participation growth rate of .9 percent was assumed, which is consistent with participation trends in recent years.

Since this is a discretionary program, the Department has recommended that the rates be held constant from Fiscal Year 1993 to 1994. The Department estimates that an additional \$15.3 million would be needed to provide the higher per-meal reimbursement rate of \$.6396.

Question. If the participation rates are not accurate or funds appropriated for the nutrition program for the elderly remain unspent, the Department makes an adjustment in the per meal reimbursement. The States receive final payments based on the adjusted rate for each meal claimed. Are these adjustments passed on to the providers of these meals? How exactly does this work?

Answer. The reimbursement process for the Nutrition Program for the Elderly involves several agencies. Initially, States are required to submit claims for meals served no later than 90 days after the end of the quarter of the fiscal year for which payment is claimed. FNS provides reimbursement on a quarterly basis to the States, which are required to disburse funds promptly to local organizations based upon their meal count data. Typically, funds pass from USDA through the State Department on Aging, to an Area Agency on Aging, and then to the local providers. Any reimbursement rate adjustments are also passed from the States to local providers.

## HUMAN NUTRITION INFORMATION SERVICE

### QUESTIONS SUBMITTED BY SENATOR BUMPERS

#### Household Food Consumption Survey

Question. Mr. Rust, I noticed in your statement that you are planning for the 1996-1997 Household Food Consumption Survey, formerly known as the Nationwide Food Consumption Survey. As you may recall, this committee was very distressed last year to learn that the most recent survey was so flawed that federal agencies, the food industry, scientists and nutritionists could not use it and did not have the data to do a detailed analysis of the adequacy of the American diet. What were some of the problems with the last survey and what steps have you taken to avoid problems in the future?

Answer. The decennial Nationwide Food Consumption Survey (NFCS) has been discontinued. The NFCS included the collection of two types of information--household food use and individual intake--which required a heavy respondent burden. The average length of the in-person interview was almost 3 hours. Consequently, many people refused to participate after being informed of the requirements of the survey.

In the future, information on the two components of the survey will be collected in two separate surveys: (1) the Continuing Survey of Food Intakes by Individuals, and (2) the Household Food Consumption Survey.

(1) The 1994-96 Continuing Survey of Food Intakes by Individuals (CSFII) has been redesigned to replace the individual intake component of the NFCS. A fixed price contract for this survey was awarded to Westat, Inc. of Rockville, MD following competitive bidding. (This is a different contractor than the one which did the NFCS.) Every facet of the survey has been thoroughly examined and redesigned if necessary. In particular, procedures for improving response rates have been established. HNIS has put in place strong management and quality control procedures both as part of the contract and in its in-house operations to assure that the survey provides accurate data in a timely manner. Unlike work with the NFCS where there were few meetings with the contractor and limited monitoring on our part, we are meeting on a regular basis with Westat to review progress of the survey and we have several staff with assigned responsibilities for monitoring the survey contract. We have developed an in-house tracking system to monitor the status of the interviews. We also have a new food coding system, designed by the University of Texas, that will improve quality and timeliness of the results. The Census Bureau has been



involved in the design of the survey, in conducting research leading to improvements in the questionnaire, and in suggesting better management procedures.

(2) The Household Food Consumption Survey (HFCS), which is scheduled for collection in 1996, replaces the household food use component of the NFCS. We are working closely with the Census Bureau to plan, design, and execute the survey and to plan for disseminating the results on a timely basis. HNIS, with input from the Census Bureau, is writing a detailed Statement of Work to prepare for the survey. Planning and designing the survey includes revision and testing of the survey instruments. It is probable that the Census Bureau will collect data for the 1996 Household Food Consumption Survey.

Question. What will be the cost of this survey?

Answer. The cost of the 1996 HFCS is presently being developed by the Census Bureau. They are scheduled to submit their cost estimates by June 1, 1993, based on a draft Statement of Work.

The cost of the CSFII 1994-96 will be approximately \$14 million. The contract for this survey has been awarded to Westat, Inc. of Rockville, MD. The cost includes about \$1.13 million for start-up and development costs by the contractor which was obligated in Fiscal Year 1992 and about \$4.2, \$3.9, and \$4.2 million for data collection in 1994, 1995, and 1996, respectively.

Briefly, these costs pay for--

- o the preparation of survey materials (training manuals, introductory letter, questionnaires, survey publicity);
- o survey staff--interviewers, food coders, data reviewers, supervisors, and other support staff including recruitment and training;
- o development of data entry software and data tracking system;
- o actual conduct of pilot study and survey--listing, contacting and screening housing units, interviewing respondents (These procedures, necessary to assure a survey that is a representative of the U.S. population are very expensive);
- o coding and entry of data, and transmitting data from Contractor to HNIS;
- o preparation of survey operations reports; and

- o travel for contractor to meet with HNIS and to conduct the survey nationwide.

Question. Is it really necessary to spend these millions of dollars annually for these food consumption surveys? How does data you collect differ from that collected by the Department of Health and Human Services' National Center for Health Statistics, the Food Marketing Institute, the Market Research Corporation, the Food and Drug Administration, and USDA's Economic Research Service?

Answer. The Continuing Survey of Food Intakes by Individuals (CSFII) provides several unique types of information useful in assessing the dietary and nutritional status of the United States population. The CSFII is food oriented. The data are used for nutrition education, food guidance, food programs, food safety, and food production concerns. The National Health and Nutrition Examination Survey (NHANES) is health oriented. The objective of the nutrition component is to track nutrition-related risk factors and to study the relationship between diet, nutritional status, and health. The CSFII includes multiple days of dietary intake, while NHANES includes only one. Extensive research shows that multiple days are needed to estimate the usual intake of the population, considering seasonal, regional, and even day of the week variation sufficient to identify population groups at risk of poor nutrition. Additionally there are important food and program information provided by CSFII and not by NHANES-

- o Multiple program participation linked with food and nutrient intakes is provided, and CSFII is the only Federal Survey to do this.
- o Source of food--restaurants, cafeterias, fast food places, soup kitchens, Meals On Wheels -- information is provided. Economists and nutrition educators can look at where people are eating and the source of their nutrients, especially important with more and more meals consumed away from home.
- o Home water supply and quantity of water consumed in a day is provided and no other survey capture this.
- o Fish intake (caught vs purchased)--of particular use to EPA and FDA is provided. The capability to identify home-produced, caught, hunted, or gathered sources is available for targeted foods, as required.
- o Eating patterns--types of food eaten at various meals. This is of use to nutrition educators in preparing dietary guidance materials.

A component of the CSFII is the Diet and Health Knowledge Survey (DHKS). The DHKS's purpose is to

provide continuing information with which to assess relationships between individuals' knowledge and attitudes about dietary guidance and food safety, their food-choice decisions, and their nutrient intakes. The CSFII provides the link between data on individuals' diets and data on their knowledge and attitudes not available with the Food and Drug Administration's Health and Diet Survey.

CSFII data differs considerably from the Economic Research Service's (ERS) food supply data. The food supply data are available on a "per capita" basis only. From it you cannot tell whether or not there is a marked difference between the consumption of low-income vs. other households, or children vs. adults, or one race or region vs. another. For example, ERS data can tell us if there are enough foods in the food supply to provide enough iron for the population, but it cannot tell us which groups, such as children or low-income elderly, are not getting enough iron. Also, ERS data covers only food in the food supply; HNIS provides the data to estimate the nutrient content of the food supply.

The Household Food Consumption Survey is conducted about every 10 years. This is the only survey of its kind--national or regional--that collects information on the kind, quantity, and money value of food used by households and the nutrients available from their food. This information is necessary to develop food plans including the Thrifty Food Plans which forms the basis of the Food Stamp Program allocation. The HFCS provides information necessary to assess the dietary status of the population groups and to evaluate the effectiveness of national food assistance programs in improving diets.

#### SUBCOMMITTEE RECESS

Senator BUMPERS. This concludes today's hearing. Our next hearing will be held Tuesday, May 11, in this same room at 10:30 a.m. The subcommittee will receive testimony from the Agricultural Research Service, Cooperative State Research Service, Extension Service, and Alternative Agricultural Research and Commercialization Center.

The subcommittee stands in recess.

[Whereupon, at 11:08 a.m., Thursday, April 29, the subcommittee was recessed, to reconvene at 10:35 a.m., Tuesday, May 11.]





# **AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1994**

**TUESDAY, MAY 11, 1993**

**U.S. SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,  
*Washington, DC.***

The subcommittee met at 10:35 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Dale Bumpers (chairman) presiding.  
Present: Senators Bumpers, Harkin, Kohl, Feinstein, Cochran, Bond, and Gorton.

## **DEPARTMENT OF AGRICULTURE**

**STATEMENT OF R. DEAN PLOWMAN, ACTING ASSISTANT SECRETARY  
FOR SCIENCE AND EDUCATION**

**ACCOMPANIED BY STEPHEN B. DEWHURST, BUDGET OFFICER**

### **AGRICULTURAL RESEARCH SERVICE**

**STATEMENT OF ESSEX E. FINNEY, ACTING ADMINISTRATOR**

### **COOPERATIVE STATE RESEARCH SERVICE**

**STATEMENT OF JOHN PATRICK JORDAN, ADMINISTRATOR**

### **EXTENSION SERVICE**

**STATEMENT OF MYRON D. JOHNSRUD, ADMINISTRATOR**

### **ALTERNATIVE AGRICULTURAL RESEARCH AND COMMERCIALIZATION CENTER**

**STATEMENT OF MARTIN L. ANDREAS, CHAIRMAN, BOARD OF DIRECTORS**

### **OPENING REMARKS**

Senator BUMPERS. Good morning. Today we will continue our hearings on the fiscal year 1994 budget for Agriculture, Rural Development, and Related Agencies. We will review the budgets for the Agricultural Research Service, the Cooperative State Research Service, the Extension Service, and the Alternative Agricultural Research and Commercialization Center.

Our witnesses this morning are: R. Dean Plowman, Acting Assistant Secretary for Science and Education; Essex Finney, Acting Administrator, Agricultural Research Service; John Patrick Jordan,

Administrator, Cooperative State Research Service; Myron Johnsrud, Administrator, Extension Service; Martin Andreas, Chairman, Alternative Agricultural Research and Commercialization Center Board of Directors; and Stephen Dewhurst, Budget Officer, USDA.

Gentlemen, welcome to all of you. As a broad overview, in comparison to 1993 funding, I note that the budget for ARS is increased by more than \$15 million, \$8 million of which is to pay costs, and \$7 million of which is for new research on commodity conversion and delivery, and integration of agricultural systems.

However, there is a 30-percent reduction, or \$10 million, for buildings and facilities. The budget for CSRS is reduced by only \$2 million in program funds and by \$52 million, or 100-percent, in buildings and facilities. The Extension Service budget is increased by more than \$6 million. Much more significant changes are embedded in each of the agencies which I will leave for our witnesses to explain.

Third year funding for the Alternative Agricultural Research and Commercialization Act is proposed at \$20 million, up from \$7,250,000 this year. We have statements from each of the agencies, the Acting Assistant Secretary, and the Chairman and Director of the AARC Center. They will be made a part of the record in full.

Dr. Plowman, I will ask you to make your oral statement first. We will then hear from Mr. Andreas, after which we will entertain questions from the subcommittee for each of the agencies. Senator Cochran.

Senator COCHRAN. Mr. Chairman, I join you in welcoming the witnesses. I look forward to their testimony. Thank you.

#### STATEMENT OF DR. PLOWMAN

Senator BUMPERS. Thank you very much. The list, as I have them here, is Mr. Plowman will commence. Secretary Plowman, please proceed.

Dr. PLOWMAN. Thank you very much, Mr. Chairman and Mr. Cochran. It is a pleasure to be here this morning to present an overview of the science and education programs of the Department of Agriculture.

In total, our budget proposals for fiscal year 1994 to fund research and extension programs are only slightly above those of the current year. As we move through the 1990's, there has been some recent things that really highlight the complexity of issues faced by agriculture in providing a wholesome food supply.

Just recently, as you well know, we have been faced with an outbreak of E. coli in meat. We are currently faced with the loss of methyl bromide, one of the most widely used soil and quarantine treatments. Last year, we faced a devastating problem with the sweetpotato whitefly that wiped out a good share of our winter vegetables.

#### PROGRAM COORDINATION

I think these events serve to remind us that we must continue to develop new technology to meet the needs of producing food and

fiber for the country. In doing this, it becomes very apparent to us that we need to approach these problems in a coordinated effort of both research, education, and regulatory agencies. I might just give an example of that. When it became clear that the Clean Air Act classified methyl bromide as a class I ozone depletor, we set up a working group among several of the agencies in the Department, AMS, APHIS, ARS, CSRS, ERS, the Forest Service, and so on, to assess the problem and see what we might do to alleviate possible consequences.

One of the first things that our NAPIAP group did was an economic assessment to see what that might cost us in agriculture. Those figures are rather astounding. If we do not find new technology, it will cost about \$1 to \$1.4 billion per year in lost sales and poor production. We now publish a research agenda or an outline of work that we need to do to develop alternatives for soil fumigation and quarantine treatments. The whole research and education community is gearing up to work on this most severe problem.

#### HIGHLIGHTS OF 1994 BUDGET PROPOSALS

I would like to highlight just a few of the issues or specific items in the 1994 budget request. One of them has to do with annualizing the 1993 Federal pay raise, and to cover some similar costs at universities through adjustments to the formula programs. These proposals are critical to maintain important ongoing work and preserve the system that allows us to respond to emerging needs. Without the Pay Act money, we are continually faced with downsizing many of our locations and activities. That causes problems.

#### INVESTMENTS IN AGRICULTURAL SCIENCE AND TECHNOLOGY

We are asking in this next year's budget for a \$30 million increase for the National Research Initiative Competitive Grants Program. It is through this program that we are able to award grants in priority areas to highly qualified scientists at both universities, Federal and private laboratories, and other organizations. The increases proposed will support additional work in food safety, human nutrition, new uses for commodities, biological control, and other high priorities.

#### TECHNOLOGY TRANSFER

Turning a bit to Extension, I think it is safe to say that our best technology is of no use to anyone unless it gets into the hands of farmers, consumers, or others who need to use it. We have had a great program in this country of linking research, extension, and educational programs.

We are trying to enhance this close research education interaction. I might give you an example of that. In just the recent past, we have employed an Extension specialist to be housed at the ARS Children's Nutrition Research Center in Houston, TX. That arrangement will allow for Extension to more rapidly utilize the results of our research there and will provide a direct input into the research planning as it is identified by the Extension interaction in

the field. We think that is a good model to try. We will be looking forward to whatever comes from that.

In the 1994 budget, an increase for Extension is requesting \$6.3 million which will provide for an expansion of successful ongoing programs in youth at risk, nutrition education, natural resources, and other priorities.

#### EDUCATING TOMORROW'S SCIENTISTS

Turning a bit to higher education; it is again safe to say that we only realize accomplishments through the quality of the people that we have working for us. Much of our scientific talent in USDA comes from the land-grant universities, including the historically black 1890 institutions. A modest, but key part of the 1994 budget is the continuation and expansion of the higher education programs managed through CSRS.

We also want to highlight the proposal for a new minority scholars program. Through competitively awarded grants which require a partial match, universities will recruit and train high-quality minority scholars to help fulfill our needs for an increasingly well trained and diverse work force. As you look at the statistics in the department, we need more diversity in our work force. This will be an effort to accomplish that.

I might also note that within the available funds, ARS has a successful program to provide lab experience to minority and other students at the high school level. In addition to that, we have been funding about 100 new post-docs each year to bring into the work force. Many of those also fit in the minority category.

#### INFORMATION AND DATA SERVICES

I would like to briefly mention the National Agricultural Library. If we are going to provide information to farmers and consumers, we need to have a reliable data base and information base to do that. The library serves that function. There is a modest budget increase in the National Agricultural Library's budget proposal. We hope that the committee will be favorable for that.

#### SUMMARY

In summary, I would just like to reiterate a positive outlook on the investments proposed in the budget. If you look at the total budget, it seems like a lot of money. If you look at the benefits to the consuming public, I think it is certainly well worth it. A lot of times we think that people that benefit from agriculture research are only people involved in production agriculture. That cannot be further from the truth.

When you think that in this country, our people spend only about 12-percent of their income on food, that tells you that it is only because we have a very, very efficient agriculture production industry. That is because we have good technology and an extension to help educate farmers on how to produce that. We think it is a small investment in terms of the total benefits that come from that.

We look forward to working with this committee and the staff. As you deliberate the merits of these proposals, we will stand ready



to reply and answer any questions that you might have. Thank you.

#### PREPARED STATEMENTS

Senator BUMPERS. Thank you, Dr. Plowman. We have your prepared statement and it will be made part of the record along with the statements of Dr. Finney, Dr. Jordan, and Dr. Johnsrud.

[The statements follow:]

#### STATEMENT OF DR. R. DEAN PLOWMAN

Mr. Chairman and members of the Committee, I appreciate the opportunity to provide you with an overview of the science and education programs of the Department of Agriculture. In total, our budget proposals for fiscal year 1994 request nearly \$1.6 billion to fund research and extension programs, up slightly from the current year. In addition, we are requesting about \$25 million to continue a program of laboratory improvements at ARS facilities.

#### SCIENCE-BASED SOLUTIONS TO CURRENT ISSUES

As we move through the 1990's, current events serve to highlight the complexity of issues faced by agriculture in providing a wholesome food supply and meeting industrial needs for raw materials. Just recently, we have been faced with an outbreak of E. coli in meat and we are currently faced with the loss of methyl bromide, one of the most widely used soil and quarantine treatments, because of its potential effects on atmospheric chemistry. Other challenges, such as the sweetpotato whitefly, serve to remind us that the progress we have made in solving pest problems does not result in permanent freedom from these enemies of production.

#### PROGRAM COORDINATION

Increasingly, we are meeting these challenges through the coordinated efforts of research, education and regulatory agencies. Let me provide just one example. When it became clear that methyl bromide would likely be listed under the provisions of the Clean Air Act as a Class I ozone depleting substance, we set up a working group with representation from AMS, APHIS, ARS, CSRS, ERS and the Forest Service to begin a coordinated response. Through the National Agricultural Pesticide Impact Assessment Program, we have already developed an assessment of the costs to producers and consumers of banning methyl bromide—\$1 billion to \$1.4 billion per year. In January 1993, we published a research agenda to outline the work that will be needed to develop alternatives for soil fumigation and quarantine treatments. We have planned a symposium, involving industry, USDA, EPA and university scientists to prioritize these needs. We are approaching other issues, such as sweetpotato whitefly, with this same type of interagency effort. This type of coordination recognizes that the complex problems we face transcend the capabilities of any one organization to solve and allows us to quickly meet the needs of producers and consumers with the most efficient and effective use of our modest resources.

#### HIGHLIGHTS OF 1994 BUDGET PROPOSALS

As I noted initially, the total science and education budget request is slightly above the 1993 level. Within the total, I would like to highlight a few specific items for the Committee. Funds are proposed to cover the annualization of the 1993 Federal pay raise and to cover similar increased costs at universities through adjustments to the formula programs. These proposals are critical to maintain important ongoing work and preserve the system that allows us to quickly respond to emerging needs. Like other Federal agencies, we are proposing some administrative efficiencies that will result in savings of about \$7.2 million. Also proposed are increases targeted to meet National needs.

#### INVESTMENTS IN AGRICULTURAL SCIENCE AND TECHNOLOGY

The foundation for applied solutions to real world problems is the continued advance of our knowledge and understanding of the fundamental mechanisms of plant and animal systems and the complex environment in which they function. Through the National Research Initiative (NRI), we are able to award grants in priority areas to highly qualified scientists at universities, Federal and private labs and

other organizations. The budget proposes a \$30 million increase above the inflation-adjusted 1993 level to enhance the ability of the NRI to fund a larger share of meritorious projects. Increases will support additional research in food safety, human nutrition, new uses for commodities and biological control, among other priorities.

Advances in scientific methods, including biotechnologies, fermentation and separation techniques and process engineering are providing researchers with new tools to approach problems. Coupled with significant developments in computers and other scientific equipment, our scientists are in a position to achieve major advances in the contribution of agriculture to meeting society's pressing needs. With improved methods of processing and manufacturing, agricultural inputs can form the basis for new, environmentally sensitive, industrial and consumer products. ARS and CSRS are participating in governmentwide technology initiatives coordinated through the Federal Coordinating Council for Science, Engineering and Technology (FCCSET) to develop advanced manufacturing technologies and advanced materials. These agriculture-based products, such as biofuels and biodegradable plastics, offer environmental benefits, increase opportunities in rural areas, lower our requirements for imported raw materials and lower the cost of farm programs.

A substantial investment for a Forestry Research Initiative is proposed, including \$9 million for research in CSRS and \$1 million for Extension activities. This initiative will enhance the management of the Nation's forest resources through the development and transfer of new scientific information and technology. A range of topics, including understanding forest ecosystems and extending the use of wood as a raw material will be pursued.

#### TECHNOLOGY TRANSFER

Our best technology is useless unless we get it into the hands of farmers, consumers and other users who apply it to meet real world needs. For most of this century, Americans have reaped the benefits of agricultural research through the education programs carried out by the Extension Service. As I noted earlier, the issues we are addressing are complex and require multiple talents for their effective solution. Extension provides an effective mechanism to utilize science-based information to help people solve problems on a wide array of issues. The Extension Service reaches a diverse audience, including urban and rural, young and old and consumers and producers of agricultural products. An example of the close interaction between Extension and research is the recent addition of an Extension specialist at the ARS Children's Nutrition Research Center in Houston. This arrangement will allow Extension to more rapidly utilize the results of our research there and will provide direct input into research planning to identify issues needing attention by the scientists.

For 1994, the budget for Extension includes a \$6.3 million increase which will provide for the expansion of successful ongoing programs in youth at risk, nutrition education and natural resources and other priorities. Extension is proposing funds for expansion of its program in sustainable agriculture, to provide producers new management systems being developed by ARS, the universities, and the private sector.

#### EDUCATING TOMORROW'S SCIENTISTS

Without question, the most important factor in our success in meeting the needs of our clientele is the quality and dedication of our workforce. Much of our scientific talent in USDA comes from the land-grant universities, including the historically black 1890 institutions. A modest, but key, part of the 1994 budget is the continuation and expansion of the higher education programs managed through CSRS. These programs serve to attract top notch students into the agricultural and allied sciences and provide support to improve the curricula and infrastructure to produce the talent we need to meet the challenges of the future. I also want to highlight the proposal for a new minority scholars program. Through competitively awarded grants which require a partial match, universities will recruit and train high quality minority scholars to help fulfill our needs for an increasingly well trained and diverse workforce. I also note that, within available funds, ARS has a successful program to provide lab experience to minority and other students at the high school level and has been funding about 100 new postdoctoral research associates at ARS labs each year.

#### INFORMATION AND DATA SERVICES

Mr. Chairman, the ability to produce quality agricultural research and provide timely information to farmers, consumers and others depends on a strong and reliable information base. We have such a resource base in the National Agricultural

Library. NAL, the world's largest library devoted to agricultural information and data, is a vital resource for the accomplishment of our research and extension work. With a modest budget, NAL provides information services to ARS and Department officials nationwide, and is responsible for managing the collection, storage and dissemination of data generated from our plant genome mapping initiative. As one of three national libraries in the U.S., they also have the responsibility of coordinating information access and dissemination activities among agricultural information providers nationwide and especially through the land grant university library system. Mr. Chairman, the modest increase proposed for NAL is critical to their ability to maintain services and offset the rapidly escalating costs of scientific and technical publications.

#### SUMMARY

In summary, I just want to reiterate my positive outlook on the investments proposed in this budget. We intend to continue to manage our programs in a coordinated manner and to involve cooperators and users of scientific knowledge in the planning of our programs. We look forward to the opportunity to work with you and your staffs as you deliberate the merits of the proposals contained in the budget. With that, I will be pleased, along with the agency administrators accompanying me today, to answer questions that the Committee may have.

#### STATEMENT OF DR. E.E. FINNEY, JR.

Mr. Chairman, and members of the Committee, we in the Agricultural Research Service (ARS) appreciate this opportunity to discuss our mission and how we manage our research program. As the principal scientific research Agency of the U.S. Department of Agriculture, our mission is to develop new knowledge essential to solving technical agricultural problems that are broad in scope and have high national priority. We are a problem-solving Agency that is dedicated to sustaining a viable food and agriculture economy—to maintaining a quality environment—and ensuring affordable, abundant, safe, good quality food and fiber for the Nation's consumers. At the same time, we want to make sure that our farmers and ranchers remain competitive in both the domestic and world markets.

#### FEDERAL AGRICULTURAL RESEARCH

At this point Mr. Chairman, one might ask the question—Why does the country need a Federal agricultural research agency? Why can't universities and other public and private institutions fulfill this need?

The short answer to that question is that ARS does research that requires unique national facilities, is national in scope, meets immediate emergency requirements, or is in the long-range national economic interest. This is research that other institutions cannot or will not do because of the expensive facilities, lack of a national network, inability for quick mobilization, or the long-range and uncertain pay off.

Examples of unique and expensive facilities required are those such as for exotic animal disease research at Plum Island, NY, the cotton processing research at the southern Regional Research Center in New Orleans and the ARS ginning laboratories at Stoneville, MS, Lubbock, TX, and Las Cruces, NM. Recent efforts pertaining to sweetpotato whiteness show our ability to respond quickly to a critical problem. The industrial use research conducted mainly in the ARS regional research centers in the 1950's and 1960's is an example of long-term, high-risk research that has had a continuous and increasing pay off. Virtually all of the products (including potential new crops) being promoted as part of the new emphasis on alternative agriculture had their genesis in the early ARS industrial use program. On a broader scale, a recent sampling by a highly reputable consulting firm of 87 research projects from the many completed in the total ARS program in the 1980–1990 decade showed an economic pay off of \$14.3 billion.

ARS also provides continuity of research resources needed to facilitate the development of solutions to the complex problems we investigate. Furthermore, the long-standing, inhouse research organization plays a pivotal role in providing leadership and focus to the Nation's total agricultural research. This is analogous to the national research direction that the National Institutes of Health provides for biomedical research nationwide.

Let me cite a few more specifics. ARS carries out focused, priority research to address national or broad regional problems. A bit later I will discuss in more detail the management structure of the Agency and our program plan, but the research is directed nationally and internationally. Its interests and responsibilities go be-



yond political and geographical boundaries. It is responsive to the Secretary, the President, other Executive Branch agencies, and the Congress to meet new or expanded needs they deem priority. The USDA's inhouse resources—its laboratories, equipment and its cadre of multidisciplinary scientists—provide a ready capability to immediately attack urgent problems as demonstrated by the recent outbreaks of TCK Smut, Russian Wheat Aphid infestations, and Bovine Tuberculosis. For example, ARS recently dispatched a scientist from Frederick, Maryland, to the People's Republic of China (PRC) to negotiate with the Chinese on the identification of TCK Smut spores that were allegedly contaminating a U.S. wheat shipment embargoed at a Chinese port. A U.S. Federal scientist is crucial to these and other international technical negotiations because many foreign governments will only honor the credibility of such national experts. The TCK Smut identification technology has emerged as a result of four years of cooperative research between scientists of ARS and the PRC.

A significant part of the ARS research program is in response to critical Federal regulatory requirements of EPA, FSIS, APHIS, DOD, SCS, FGIS, and others. This includes issues dealing with regulations that affect commodity exports and imports like the banning of methyl bromide which could have an immediate and devastating economic impact on many countries, not only the U.S., but many developing countries. We're currently investigating alternative treatments to replace methyl bromide fumigants for selected commodities. ARS is involved in many regulatory and health issues dealing with salmonella, E. coli, avian leucosis and so on. These are national issues that impact producers and consumers alike. There is no one other research organization with the experience, knowledge and capability to step-up and respond quickly to these issues. The USDA's inhouse research must coordinate and carry out these and similar programs that a State cannot undertake.

A large and significant part of the ARS mission deals with the national genetic resources program. The Agency conducts plant explorations, collects and maintains plants, insects, fungi and microbial collections. ARS carries out research to enhance these collections. It maintains plant introduction stations and other laboratories to protect and preserve our germplasm. The largest collection of seed is maintained at our National seed storage laboratory in Ft. Collins, Colorado.

Our biological control programs are carried out at a number of ARS locations here and in our foreign laboratories in France, Argentina and Korea. Foreign explorations are pursued by our scientists to further our biocontrol research which ultimately will lessen our reliance on chemicals.

ARS carries out research for the Nation, where profit is not a motivation; research that is not feasible for others to conduct. For example: the Agency carries out research at a number of national laboratories like the foreign animal disease laboratory at Plum Island, whose mission is to safeguard the Nation's meat-food industry from financial devastation should an exotic disease like Foot-and-Mouth enter our borders. We are co-located with the veterinarians of APHIS on this Island. We are also co-located with APHIS personnel at our National Animal Disease Center at Ames, Iowa where we jointly coordinate our efforts to reduce and eradicate diseases and pests of our farm animals. Our utilization laboratories continue to play a vital role in finding new uses for food and non-food products and processes. Their contributions from the 1950's and 1960's are still impacting our everyday lives.

Our utilization laboratory at Peoria, Illinois pioneered research to find industrial uses for agricultural commodities and continues to carry out an outstanding program. The Eastern utilization laboratory has found solutions to many food safety and health issues; our utilization laboratory in New Orleans has solved problems for our cotton farmers and industry from picking it to manufacturing a permanent press shirt.

#### BUDGETARY RESOURCES

The Agricultural Research Service's budget in fiscal year 1993 is \$660,879,000. These funds are allocated for priority research needs of the Nation's agricultural producers and consumers. Programs are targeted toward environmental concerns and natural resources such as groundwater quality, waste management and biocontrol programs; sustainable agricultural practices and management systems; food safety programs to address bacteria, such as *Salmonella* and *Listeria*, and other concerns; human nutrition research is directed toward the young, the aged, and on diet and its relation to cardiovascular diseases, cancer and other chronic illnesses; genetic resources research activities are pursued to ensure that a full complement of genetic diversity is available to improve our plant and animal materials; international trade and economic prosperity are targeted through new uses of agricultural commodities, developing alcohol fuels and improving production efficiencies,



etc. I could go on in much more detail but I need to stress that the research we direct is in response to the Nation's highest priorities for agricultural research.

In order to maintain our responsiveness to emerging issues that arise, we manage our programs to meet new or expanded research issues within available resources. The Agency has undertaken the effort to upgrade and modernize a number of its national and regional research centers—many of which were built in the 1940's. This must be done to protect these Federal assets from deterioration; to provide available state-of-the-art laboratories as required by regulatory standards, and for health and safety requirements.

#### FISCAL YEAR 1994 BUDGET RECOMMENDATION

A total of \$675,951,000 is proposed in fiscal year 1994 for the Agricultural Research Service, a net increase of \$15,284,000 over the funds available in fiscal year 1993.

Increases of \$8,628,000 are proposed for the annualization of the fiscal year 1993 pay costs and \$7,464,000 for anticipated non-salary inflation costs in fiscal year 1994. A decrease of \$7,808,000 is being proposed to implement the Administration's initiative to reduce Federal employment and overhead-type expenses in fiscal year 1994.

The Agency is requesting \$7 million for critical research needs as part of the government-wide investment in advanced manufacturing technology development. ARS will allocate \$6 million to explore new technologies for the manufacture of biofuels, including ethanol and biodiesel substitutes, and improved processes to convert agricultural commodities into high value products. Improved manufacturing technology in this area will increase the utilization of bulk agricultural commodities with benefits for farm income, rural development, the balance of trade, and the environment. Work in this area is being closely coordinated with research programs of the Department of Energy and EPA activities.

A \$1 million increase for research in improved farm management systems is also proposed as part of the government-wide initiative in advanced manufacturing technologies. Recognizing agricultural production as a biological manufacturing system, research will be pursued to provide better decision support systems for farmers and ranchers. New systems will provide advanced technology for farmers to make production decisions which are profitably and environmentally sensitive.

Lastly, we propose a total of \$24.6 million for facility improvements at important research locations. Many of the major facilities available to ARS researchers were constructed prior to 1960 and are functionally obsolete and in need of major modernization to correct health and safety code violations. More importantly, the application of advanced research approaches depends upon the availability of modern facilities to solve complex problems.

#### PROGRAM PLAN

A scientific/technological revolution for agriculture appears to be underway. The potential is great for major scientific breakthroughs in the agricultural sciences led by new developments in biotechnology and computer/information systems. To realize this potential, ARS has a strategic plan for guiding the agency into the next century and beyond. This plan identifies the long-range challenges to U.S. agriculture and the approaches ARS would use to meet them. Policies are also established to guide the agency over a six-year period and each successive period thereafter.

The plan enables the agency to systematically review priorities, address new needs, and develop approaches to be used for meeting the challenges that are possible within available funding. Our National Program staff consists of experts from a wide range of science. This staff is responsible for overseeing ARS research programs, establishing broad priorities to guide resource implementation, and ensuring national coordination. A geographically dispersed chain of management responsibility starts with the Administrator and extends out to area/center directors and on to research leaders at our locations. Research leaders at these locations have front-line responsibilities for carrying out the programs and efficiently managing the resources allocated to them. Through this structure, ARS can respond quickly to mandates of Congress or the Executive Branch, to emergency situations of national importance, or to critical needs of regulatory agencies. A substantial part of the research conducted by ARS is fundamental in nature but still directed toward solving problems that require long-term, high risk approaches. To conduct this kind of research, ARS scientists use the most advanced technologies known. Much of it is on the leading edge of each discipline that is required. Equally important is the applied research ARS carries out to attack more immediate problems facing farmers, producers and consumers.

## RESEARCH FACILITIES

ARS has 122 domestic research facilities and 5 foreign laboratories strategically situated across the major farm and range ecosystems and climate zones of the U.S. to respond to critical needs facing American agriculture. Many of the facilities are located on university campuses and State agricultural experiment stations which assures cooperation and interaction with State scientists. This arrangement encourages joint use of expensive equipment and support facilities. The facilities in the foreign countries enable scientists to conduct research that is of direct benefit to U.S. agriculture and prevents problems from being introduced, some of which would be catastrophic. ARS facilities range from those designed to address specific problems such as the U.S. Grain Marketing Research Laboratory in Manhattan, Kansas to large centers like the Beltsville Agricultural Research Center that provide for multidisciplinary research. Many aspects of agricultural research are carried out at the major ARS research centers located at Beltsville, Maryland and Athens, Georgia; and the Regional Utilization Research Centers at New Orleans, Louisiana; Peoria, Illinois; Albany, California; and Philadelphia, Pennsylvania.

Human nutrition research is focused at five major ARS research centers: Beltsville, Maryland; Grand Forks, North Dakota; Houston, Texas; Boston, Massachusetts; and San Francisco, California. Each center has specific goals and objectives to promote optimum human health and well-being through improved nutrition which will be essential in reducing the long-term health care costs of the Nation. Other major centers which have been established to meet national research needs include the Plum Island Animal Disease Center and the National Animal Disease Center, mentioned earlier, and the U.S. Meat Animal Research Center, which is located at Clay Center, Nebraska and focuses on production research problems facing the U.S. livestock industry. There are other national research facilities as well as those addressing regional research problems which serve a unique clientele.

## TECHNOLOGY TRANSFER

To help translate the results of our research into practical products, processes, and services, ARS has worked closely with commercial firms for many years.

With passage of the Federal Technology Transfer Act of 1986, ARS has taken the lead in the number of agreements made with the private sector to move research from laboratories and putting it to use. ARS has over 290 Cooperative Research and Development Agreements (CRADA's) with private firms to commercialize new technology and stimulate new business enterprises. This has included a variety of technologies addressing contemporary concerns such as food safety, biological pest control, and product quality—even veterinary medicine. ARS in 1992 received a National award from NASA for pioneering the transfer of new technologies to the private sector.

## AGRICULTURAL SCIENCE

As you know, we're blessed with an abundant supply of high-quality food in our country. Preliminary 1992 figures show record yields for corn, soybeans, grain sorghum, barley, oats, Durum and other spring wheat. Cotton and rice yields are the second highest ever. The U.S. generated about \$42 billion dollars in agricultural exports last year—a new high. There's no reason to think the demand for food will decrease.

The share of the average American family's disposable income used for food has dropped steadily from 22 percent in the 1950's to just over 11 percent today. There are a lot of reasons for this. A key factor—and one that is often overlooked—is the quality of our agricultural science. Behind every product that a farmer produces and a grocery store sells, there is a substantial research investment. We sometimes take our food supply for granted, but this does not happen by chance; a lot goes into producing it. Farmers can work from dawn to dusk, but they won't be able to produce enough over the long term—at affordable prices—if they don't conserve their soil and water, plant hardy varieties, control insects and diseases and transport their crops quickly to the marketplace.

The impact of research on our food supply is often subtle. As consumers, we see the end product; when we buy seedless grapes in the produce department, we don't realize that plant breeders worked years to develop that variety. We're not always interested in how the product evolved. We just want it to be available, safe, nutritious and affordable.

## ARS ACCOMPLISHMENTS

To illustrate the impact of research on our food industry and daily lives, I thought I'd take you through the day of an American consumer, focusing on some of the many products that ARS research has helped create. These products aren't limited strictly to food, because our researchers have developed many new non-food uses for agricultural commodities.

Let's start at the beginning of the day with a glass of orange juice for breakfast. ARS scientists at the Winter Haven laboratory in Florida in the 1940's developed a technique for making it from frozen concentrate. Even if you eat a fresh orange in the morning, chances are that it is a variety developed in whole, or in part, by ARS breeders. If you prefer, say, apple or grape juice, our scientists also developed processes for making those juices from concentrate and techniques to insure their quality and that they are free from adulteration. In fact, almost any frozen food you eat has an ARS imprint: our scientists at the Western Regional Research Center in Albany, California helped spawn the frozen food industry by developing ways to blanch and freeze fruits, vegetables and other products while retaining their flavor, texture and nutrients.

Maybe you're going to have a bowl of cereal and milk with your juice. That's not easy for much of our population that has trouble digesting a milk sugar called lactose. Our scientists at our Philadelphia laboratory discovered a practical way to remove lactose to make it possible for lactose-intolerant people to digest milk and other dairy products that provide valuable calcium, protein and other nutrients in our daily diets.

Now you're ready to read the morning newspaper. In some parts of the country, the ink, particularly color inks, has been made from soy oil instead of petroleum oils. Our scientists at Peoria, Illinois markedly improved that technology to expand this new use for soybeans, which is good news from an environmental and agricultural standpoint, providing a new use for soybeans and a source of ink from a renewable source. In early 1991, estimates were that soy-based ink used 5 to 10 million bushels of soybeans yearly. If all printers converted to 100 percent soy ink, it would consume about 100 million bushels. This is a new use for an agricultural commodity that expands the market, enhances the returns to the farmer, and expands business opportunities in rural communities. Its environmental and energy benefits include use of a renewable resource instead of petroleum, avoidance of incorporation of organic solvents into the atmosphere, and enhanced recyclability and biodegradability.

It's also likely that, in coming years, that newspaper will be printed on paper made from a crop called kenaf, which our scientists have been studying as an alternative source of pulp for paper products. Plans are underway for the first commercial plant to make newsprint from kenaf.

You're finished with breakfast and caught up on the news, and you're ready to get dressed. If you're wearing cotton, wool or leather clothing, chances are it was made with the help of technology developed by ARS. Our researchers at the southern Regional Research Center in New Orleans helped develop wrinkle-resistant, durable cotton fabrics.

One type of cotton, Pima which has extra-long fibers, has been genetically improved by ARS and is being grown more and more because of its increasing use in luxurious consumer fabrics. They also found a way to make shrink-resistant wool and higher-quality leather by improving tanning and other steps that turn animal hides into leather.

In the event you have a condition requiring medication, your physician might prescribe penicillin or a similar antibiotic. Many Americans don't realize that ARS scientists, during World War II, developed a technique for mass-producing penicillin so it could be available on a large-scale basis for our soldiers. Our scientists also discovered a more productive strain of the *penicillium* mold that produces penicillin. The entire antibiotics industry is based on the fermentation technology developed by ARS for penicillin.

There may also be some ARS research in the car you drove to the office. The absorbent starch-material in your fuel and oil filters was developed by ARS scientists. Most fuel and oil filters contain a new starch-based dewatering absorbent. This absorbent derived from corn and developed by ARS scientists is known to many as Super Slurper. It is used in a variety of other products from disposable diapers and baby powder to coatings on the seeds you plant in your summer garden.

Are you ready for lunch? If you're eating mashed white potatoes or sweetpotatoes from flakes, ARS scientists developed that technology, and, like our frozen food research, it helped spawn an industry—today 400 million pounds of potato flakes are produced each year in our country. If you're having a sandwich for lunch, the



bread's quality has been helped by ARS research to improve the baking properties of wheat flour. Peanut butter, popular on sandwiches, has better flavor and quality today than it did years ago, partly due to ARS research. If you like sourdough bread, you can thank ARS researchers—in the 1960's they identified the bacterium and yeast that work together to produce the sourdough bread in the San Francisco area. Now it can be baked anywhere in the world.

You may enjoy having a salad for dinner. The lettuce, the tomatoes—almost any vegetable in it is probably a variety that was improved by years of ARS breeding research. More than 90 percent of all lettuce grown and consumed in the U.S. is the iceberg lettuce type, derived from ARS research at our Salinas, California laboratory. If you use a dressing with vegetable oil, it probably contains some soybean oil. Its quality has been greatly improved over the years by ARS research. In fact, our soybean research has helped transform it from a little known crop in the 1950's to the second biggest in the country today. Soybeans can be found in a variety of products today—from vegetable oils to margarine, breads, pastries, cakes and muffins.

As in vegetables, ARS research is incorporated into much of the fruit you eat today. Over the years, ARS researchers have improved everything from citrus to strawberries and blueberries. As I mentioned earlier, if you like Flame seedless grapes, you can thank ARS researchers at our Fresno, California laboratory who developed them.

The ARS imprint is also in the turkey you're having for dinner. Our scientists bred the "Beltsville Turkey," predecessor to the modern turkey, which is quite an improvement over the wild turkey the Pilgrims ate at their first Thanksgiving. The corn the Native Americans presented to the colonists has undergone a significant transformation over the years—helped greatly by ARS corn breeders. Most recently, in 1992 ARS released two corn germplasm populations that have resistance to aflatoxin, a potent carcinogen, and to fall armyworm insect pests.

And, speaking of holidays, the poinsettias that often decorate homes and offices are partly the result of ARS breeders who helped make improvements in the color of the leaves and their longevity. The scientific basis for using variable day lengths and artificial lighting to regulate the timing of flowering has provided the foundation for the entire floral industry as we know it today. These are just a few of many advances our scientists have made over the years in ornamental and floral plants.

In addition to turkey, most of the meat and poultry that you eat has been improved by ARS researchers. We've improved the taste and texture of the meat, and our scientists have helped develop tests to safeguard food from contamination by organisms that cause botulism, *Salmonella* and other types of food poisoning. Our researchers have also bred new and improved farm animals, and developed vaccines to protect their health. One of those vaccines, to prevent coccidiosis in chickens, was the subject of the first CRADA with a private company under the 1986 Technology Transfer Act.

If you're taking an evening walk after dinner, you may encounter a mosquito along the way. Our researchers have developed repellents for mosquitos and controls for other pests such as cockroaches and fire ants. Much of this research was done by ARS scientists in support of Department of Defense needs in World War II and has continued to current day DOD operations in Desert Storm and Somalia to protect our troops from biting insects.

Our pioneering technology to eradicate the screwworm insect through mass releases of sterile males produced by irradiation—an early success in biocontrol—is now world renowned. Just last year the two ARS scientists who developed this technology were awarded the World Food Prize.

Aside from controlling harmful insects, we're also protecting our most beneficial insect, the honey bee. In January we released a new honey bee strain that has resistance to two mites that have threatened our domestic honey bee industry with serious losses. Maintaining a healthy population of honey bees means they'll continue to help pollinate billions of dollars worth of our crops each year.

These are only some of the examples of products you might encounter on a given day. It would take too long to name them all. But, as you can see, ARS is committed to moving our technology from the laboratory into the marketplace. In 1991-92 our scientists filed 174 patent applications and licensed 56 inventions to private companies—including a process to grow taxol, the cancer-fighting drug, in cell cultures, rather than relying on the bark from the pacific yew tree. We also recently signed more than 100 new CRADA's with private companies.

Whether the research results are released by ARS or private companies, the important thing is that they get to the marketplace, so that the public's tax dollars wind up benefiting the people who paid the bill in the first place.



Our challenge is to continue solving problems for agriculture, its producers and consumers, and to the meet food and fiber requirements of a growing population in a way that is safer, better and more nutritious.

Mr. Chairman, that concludes my statement. I would be glad to answer any questions the Committee may have.

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#### STATEMENT OF DR. JOHN PATRICK JORDAN

Mr. Chairman and Members of the Subcommittee: American agriculture is the envy of the world. As our nation's biggest industry, it is the most efficient agriculture in the world and remains a mainstay source of food and fiber for this country and much of the world. A major contributor to this success is the agriculture and forestry research carried out in the land-grant college system for well over a century. This remarkable idea created a Federal-State partnership in science and education to serve all the people and this system has done just that.

Through joint planning and scientific review of projects and programs, the Cooperative State Research Service focuses Federal resources on perennial and emerging problems in agriculture, related to the provisions of the Farm Bill and the priorities of the Joint Council on Food and Agricultural Sciences and the National Agricultural Research and Extension Users Advisory Board. CSRS programs span the continuum from fundamental research in the National Research Initiative to mission-focused work in our formula based and special grants programs to commercialization in our supplemental and alternative crops program. It is all targeted to priority needs of producers and consumers of food and fiber. The partnership between USDA and the university based research system is forged through CSRS. We do this in cooperation with all of the State and Territorial Agricultural Experiment Stations; the 1890 land-grant institutions, including Tuskegee University; all of the Forestry Schools; and all of the Colleges of Veterinary Medicine in the United States. In addition to land-grant universities, there are other universities, not of the land-grant model, which are participants in the system. Together these institutions very effectively address regional and national needs in agricultural research and education as well as their particular State and local agendas.

The mission of CSRS is to advance science, technology and education in support of agriculture, forestry, people and communities through a partnership with the system of State Agricultural Experiment Stations, colleges, universities, and other public and private research and education organizations and in concert with the Secretary of Agriculture and intent of Congress. We accomplish this mission with a current CSRS ceiling of 230 staff-years, which supports a system of approximately 45,000 people.

CSRS operates under several legislative authorities which enable it to flexibly address agricultural research and education needs. These programs bring about interstate cooperation and Federal-State collaboration in planning and carrying out a national program of agricultural research and education. The CSRS/State system performs approximately 69 percent of all publicly funded agricultural and forestry research in this country. Federal funds administered by CSRS serve as a catalyst, and leverage State and other non-Federal funds at a rate of 1 to 4. As a result of the Federal funds, the State partners bring all of their non-Federal funds to the planning table for a coordinated national program of agricultural research. The effect of Federal funds is therefore far greater than would be expected solely on the basis of the amount of funds provided. The total CSRS budget recommendation for fiscal year 1994 is \$431,407,000.

The fiscal year 1994 budget proposes to significantly increase investment in the National Research Initiative (NRI) Competitive Grants program and the McIntire-Stennis Cooperative Forestry program. As noted in "A Vision of Change for America," top flight research and development is necessary to assure the continued competitiveness of U.S. agricultural products in global trade, ensure the food supply's safety and quality, and sustain natural resources. The Administration proposes to support increased agricultural research by increasing funding for the NRI by \$30 million for fiscal year 1994 and by \$480 million for fiscal year 1994-1997.

The \$9 million increase in fiscal year 1994—\$102 million for fiscal year 1994-1997—for the Cooperative Forestry Research program will increase the breadth and depth to which forestry research areas are investigated, providing the necessary information to help the Nation develop sound forest-related policies that will both provide resources to meet ever-increasing demands from the population and sustain forest ecosystems. CSRS is coordinating the research funded through the Forestry Research Initiative with the Forest Service and the Extension Service.

Let me give you a brief overview of the programs that CSRS administers and their respective budget requests.

#### FORMULA BASED PROGRAMS

The State-Federal partnership in food and agricultural research and education has benefited both American consumers and the agriculture industry and merits continued strong support. The Hatch, McIntire-Stennis Cooperative Forestry, and Evans-Allen formula based programs are the foundation upon which the remaining Federal funds build, including special and competitive research grants plus funds from the States and private industry.

The Hatch Act authorizes research funds to the State Agricultural Experiment Stations located in every State and seven Territories. The 1994 budget request is \$173,451,000, an increase of almost 2.8 percent over the 1993 appropriated level.

Funding for research that provides knowledge essential to the efficient and effective use of the Nation's forestry resources is provided by the McIntire-Stennis Cooperative Forestry program. The 1994 budget request is \$28,045,000. This is an increase of \$9.5 million over the 1993 appropriation of which \$9.0 million is for the CSRS share of a Presidential investment proposal for forestry research. CSRS is involved in a USDA Forestry Research Initiative on forest ecosystem management, in cooperation with the Forest Service and Extension Service.

Funding to the 1890 Colleges and Tuskegee University is provided through the Evans-Allen program with a 1994 budget request of \$28,157,000. This program is consistent with a broader USDA initiative to strengthen the contribution of the 1890 institutions to agricultural and natural resources research and education.

These core programs support the basic laboratory facilities, scientists, and graduate students necessary for the long-term stability of agricultural research. In 1994, they comprise about \$230 million or 53 percent of the \$431 million CSRS research and education budget request. These programs allow the institutions maximum flexibility to support research of the highest priority and at the same time assure the strong working relationship between the USDA and the State Agricultural Experiment Station system.

#### NATIONAL INITIATIVE FOR RESEARCH ON AGRICULTURE, FOOD AND ENVIRONMENT

In fiscal year 1991, a major new program was implemented by the Department of Agriculture—the National Initiative for Research on Agriculture, Food and Environment (NRI) with an initial appropriation of \$73 million. The Congress appropriated \$97.5 million for the NRI each year in 1992 and 1993. The 1994 budget request is \$130,195,000. This increase of \$32.2 million above the 1993 appropriation includes \$30 million for a Presidential investment proposal.

The NRI has been broadly endorsed by users of research results and brings new Federal support for agricultural research awarded on a competitive basis. We are very pleased with the continued support received from the Congress on this major agricultural research initiative. In 1992, more than 2,900 proposals were submitted requesting about \$597 million and we were able to support approximately 15 percent of the funds requested. During the past two years we provided to this Committee a monthly report summarizing the research objectives of each of the grants as they were awarded. A quarterly report was also provided outlining the accomplishments of terminating competitive grants. We will continue to provide these reports to the Committee.

I want to stress that the NRI is truly a Departmentwide research initiative that happens to be located in CSRS. The responsibility for the policy and planning of the NRI lies with the Assistant Secretary of Science and Education and a Board of Directors who take into consideration the advice of the diverse individuals and groups interested in agricultural research. The Board, chaired by the Assistant Secretary, is composed of the Administrators of the Cooperative State Research Service, Agricultural Research Service, and Extension Service; the Director of the National Agricultural Library; the Chief Scientist of the NRI; the Forest Service Associate Chief for Research; and the Administrator of the Economic Research Service.

There are six research components in the NRI: natural resources and the environment; nutrition, food quality and health; plant systems including funds for the plant genome mapping program with the Agricultural Research Service as the lead agency; animal systems; rural development, markets, and trade; and processes antecedent to adding value and developing new products. The NRI components contribute significantly to interagency programs on water quality, global change, biofuels, food safety, biotechnology, human nutrition, new uses and products, sustainable agriculture, and advanced materials.

The key to the NRI is its balanced approach focusing on priority issues using both fundamental science and the more applied research. It is from this balanced approach that major conceptual breakthroughs emerge. Fundamental research projects are both individual investigator grants and multidisciplinary team research grants. Other forms of grants are directed at mission-linked studies, as well as institutional strengthening grants.

Funds are awarded through a competitive, science-based review process. This mechanism is well suited to stimulating new research activity in specific, high-priority areas of science and engineering. All public and private universities, research organizations, Federal agencies, private organizations or corporations, and individuals are eligible to compete for these funds. With increased growth in the NRI, USDA competitive research grants can be made more comparable in size and length to grants awarded by other Federal agencies.

The NRI has embarked on a mission to strengthen agricultural research at small and mid-sized institutions and institutions in States that have traditionally received less support from the competitive grants program—defined as USDA—EPSCoR (Experimental Program to Stimulate Competitive Research) States. A further goal was to encourage young talented scientists to pursue careers in agricultural research. In 1992 the NRI provided 186 grants amounting to almost \$16.1 million through seed grants, equipment grants, new investigator grants, career enhancement awards, post doctoral grants and regular grant awards. Career enhancement awards are awarded to faculty wishing to enhance their research capabilities through sabbatical leaves.

Two programs in the new Markets, Trade and Policy Division, namely the Rural Development program and the Markets, Competitiveness, and Technology Assessment program, were implemented successfully in 1992. In addition, in response to a growing awareness of the need to enhance the competitive value and quality of U.S. agricultural products, the NRI initiated a new program area in Processing for Adding Value or Developing New Products.

The NRI is strongly supported by the Administration as well as numerous producer and trade associations. Congress fully embraced the NRI in the 1990 Farm Bill. It has attracted the interest of the scientific community throughout the United States. The NRI is of critical importance to the future of American agriculture. To the extent that funds are awarded competitively and not earmarked for specific sites or institutions, it is proposed that funding for the NRI investment be increased by \$70 million in 1995 and \$50 million annually thereafter.

#### SPECIAL RESEARCH GRANTS AND OTHER GRANT PROGRAMS

The CSRS Special Research Grants program concentrates on specific problems beyond the normal emphasis in the formula based programs. In 1994, \$34.4 million is requested. Important national needs will be addressed such as energy biomass/biofuels, global change, integrated pest management/biological control, minor use animal drugs, the National Biological Impact Assessment program, pesticide clearance, pesticide impact assessment, rural development centers, and water quality.

The \$6.9 million request for the Sustainable Agriculture Research and Education or SARE program is designed to provide both a research and an education base for the future economic viability of U.S. agriculture. Special emphasis is placed on whole-farm systems research and economic impact assessment. SARE is managed through four regional administrative councils composed of farmers and ranchers, and representatives of non-profit private, agribusiness, government and academic organizations. Most funded projects have meaningful involvement of farmers or ranchers. Sustainable agriculture farming practices enhance environmental quality and the natural resource base upon which the agriculture economy depends and make the most efficient use of non-renewable resources and integrate, where appropriate, natural biological cycles and controls.

The \$4.1 million request for the Aquaculture Regional Centers program supports five centers in the United States for research, development, demonstration, and education to enhance viable and profitable U.S. aquaculture which would benefit consumers, producers, service industries, and the American economy. With steadily increasing per capita consumption of seafood and a limited supply of wild stock, aquaculture will likely be a major growth industry in the 21st century. The Centers program focuses on priority R&D needs expressed by industry for improving aquaculture technology and market potential.

The \$3.0 million Supplemental and Alternative Crops program request for Advanced Materials represents a significant increase over the \$1,168,000 appropriated for 1993. The request reflects the Advanced Materials and Processing Program or AMPP recommendation from a committee crosscut of the Federal Coordinating



Council on Science, Engineering, and Technology or FCCSET. The AMPP calls for CSRS to engage in an intensive program of development and commercialization for uses of vegetable oils that provide materials of strategic and industrial importance. This comprehensive program will involve private companies, government and universities in a multi-year partnership that joins resources, facilities, and ideas. The classes of products to result from this effort include engineering polymers, biodegradable polymers, high performance lubricants and surfactants, and low/no volatile organic carbon paints and coatings. The 1994 program significantly expands earlier characterization work for hydroxy fatty acid oils and derivatives to develop specific product applications for comparative testing and market assessment.

The competitively awarded Rangeland Research program funds research on management, revegetation, and rehabilitation of rangelands. The 1994 budget request is \$489,000.

In 1992, CSRS in cooperation with ARS implemented a new Biotechnology Risk Assessment Research Grants program. The program funds competitively awarded grants to resolve risk assessment questions in support of biotechnology research and regulation. As required under section 1668 of the 1990 Farm Bill, one percent of biotechnology research funding is to be set-aside for this program. CSRS, ARS, and Forest Service contribute funds to the program. There was \$1.4 million available in 1992 and the 1993 estimate is approximately \$1.7 million.

#### HIGHER EDUCATION

Recognizing that education is the lever that can move this nation successfully into the 21st century, CSRS supports several mechanisms for advancing USDA's role in promoting excellence in education. We currently have a soundly integrated portfolio of programs which includes the National Needs Graduate Fellowships program, the Institution Challenge Grants program, the innovative Teaching and Research Capacity Building Grants program for the 1890 Institutions, and the Morrill-Nelson program. A new program, the Minority Scholars program, is being proposed for 1994. These programs complement and build upon one another and are heartily endorsed by the Office of Science and Technology Policy—FCCSET Committee on Education and Human Resources.

The \$3.6 million for the National Needs Graduate Fellowships program will recruit and train doctoral students in targeted shortage areas such as biotechnology, bioprocessing/engineering, food science/human nutrition, marketing, and water science. Grants are awarded competitively to institutions identified via the science-based review process as offering excellent teaching and research programs in the targeted areas. This program was initiated in 1984 and has served to attract almost 700 superior new graduate students from a broad array of academic backgrounds into high priority disciplines. Evidence shows that without the fellowships program, most of these students would not be pursuing graduate study today in a food or agricultural discipline. We would likely have lost them to other areas of science and business.

The Institution Challenge Grants program is designed to energize the educational system which is primarily responsible for training food and agricultural scientists and professionals. It stimulates the private sector to match, dollar for dollar, the Federal partner in providing support to strengthen the infrastructure of the U.S. food and agricultural sciences higher education system. This \$1.5 million program will foster partnership ventures among universities, industry, and government. Areas of partnership initiatives include curricula revitalization, faculty development, innovative instruction delivery systems, and student experiential learning opportunities. Several of the projects supported are developing and delivering instruction via AG\*SAT, the national satellite network developed by a consortium of 35 land-grant universities. Other projects are enhancing agribusiness education, enriching programs of study through international experiences for students and faculty, and establishing summer research programs for minority undergraduate students.

The 1890 Institution Capacity Building Grants program serves as the crux of the Department's initiative to advance the teaching and research capacity of the 1890 Institutions and Tuskegee University. This competitively awarded program strongly encourages matching funds from non-Federal sources and requires the institutions to cooperate with one or more USDA agencies in developing a proposal and in carrying out the capacity building project. This \$11.5 million program will promote partnership efforts with other institutions of higher education and private industry. The program is designed to encourage expanded linkages with 1890 Institutions as performers of research and developers of scientific and professional talent for the food and agricultural system.



The Morrill-Nelson program supports higher education in the food and agricultural sciences at land-grant institutions through a permanent appropriation of \$50,000 per year to each State and Territory for a total program of \$2.85 million. Many 1890 institutions benefit from these funds along with the 1862 land-grant institutions.

In 1994 a new Minority Scholars program is being requested at a level of \$1.0 million. This USDA initiative is proposed specifically to attract and educate more minorities for careers in agriculture. The program will be open to all U.S. colleges and universities with baccalaureate and higher degree programs in agriculture, forestry and natural resources, home economics, veterinary medicine, and closely allied fields.

The investment we are making in these programs is having a tremendous impact on agriculture all across the Nation in terms of attracting outstanding young scholars, particularly women and minorities, broadening and updating the competencies of our faculties, and improving the overall quality of our curricula.

#### REPORT OF SELECTED SIGNIFICANT ACCOMPLISHMENTS

Every year I like to report to this committee about some of the research being supported under the programs I have just discussed. Further, we are preparing a report reviewing the dynamics of the base program including many of the areas reported to you today.

Ground penetrating radar has been shown by researchers in New York and Wisconsin to be a new and effective tool in determining the routes that possible pollutants take on their way to the ground water. These studies show that layered soils have a substantial effect on how water and potential pollutants move through the media. The research, supported with Hatch Act funds, will assist in developing soil and crop management practices for those soils which make more efficient use of fertilizer and pesticides while still protecting the environment.

Iowa state University scientists have been working with an important pathogen of southern corn leaf blight and have developed the most complete genetic map of any fungal plant pathogen to date. The detailed map of each chromosome of this fungus permits specific genetic manipulation to both determine and alter its aggressiveness on corn. This research, supported with Hatch Act funds, offers information useful to efficiently breed corn varieties that resist blighting and to attenuate the pathogenicity of the fungus.

Scientists at Florida A&M University have identified a protein marker in the peanut seed which will be useful to determine the maturity status of the seed. In addition, factors affecting natural resistance of the peanut to aflatoxin contamination have been identified which would enable the industry to reduce aflatoxin contamination of peanut seed. This research was supported with Evans-Allen funds.

An Agricultural/Environmental Biotechnology Computer Bulletin Board, supported by the Special Research Grant for the National Biological Impact Assessment Program, is being operated by Virginia Polytechnic Institute and State University. The overall goal of the Bulletin Board is to expedite the flow of information on biotechnology to researchers in the field. This Bulletin Board combines a monthly News Report on current developments in agricultural/environmental biotechnology with direct access to 18 databases. The databases, which are continually revised and updated, range from full texts of all pertinent Federal regulations and guidelines to a registry of field tests conducted, current literature, State regulatory agencies, etc. Currently, there are 6,000 registered users of the Bulletin Board.

In research supported by the National Research Initiative at the University of California at Los Angeles, pima cotton lines were selected for higher yields and heat resistance. Physiological characterization showed the biological basis for these desirable traits. Leaves of desirable lines had higher evaporation rates and significantly cooler leaves, higher photosynthesis rates, and smaller leaf area than unimproved lines. Success in these studies should improve the ability to use such traits in breeding programs and enhance understanding of heat resistance.

NRI supported scientists at North Carolina State University have successfully produced a low density genome map of loblolly pine, the most economically important conifer in the United States. With this map it will be possible to identify desirable traits for breeding purposes.

Three of the goals of the Sustainable Agriculture Research and Education Program, also known as SARE, are to develop alternative systems of agriculture that are economically viable, environmentally sound and enhance the quality of life for farm families. During the past several years, new systems that combine rotations of corn, soybeans, small grains, and legumes have been tested and shown to significantly reduce and, in some cases, eliminate the need for herbicides in most growing

seasons. These systems should be appropriate for crop agriculture in Iowa, Illinois, Indiana and Ohio, and possibly in other States. A second agricultural technology under extensive investigation by the SARE program has been shown to reduce environmental risks, increase profits and enhance farm family quality of life in animal agriculture. This system is called intensive rotational grazing, also known as controlled grazing management and short-duration grazing. The method is a simple system of controlling grazing by dividing pastures into small areas or paddocks that are grazed on a rotational basis, minimizing the waste of forage and protecting plants from overgrazing. It holds great promise for many types of animal agriculture, and has been successfully demonstrated in Vermont, Wisconsin, Tennessee and South Carolina. Both of these examples require extensive modern management technology uniquely integrated with the natural resource base of the farm.

New, high performance lubricants, engineering plastics, and processing aids are being commercialized using high erucic acid oils from industrial rapeseed and a new crop, crambe. The new materials have their origins in research performed by the USDA's Agricultural Research Service and a number of private sector collaborators. Advanced lubricants, including transmission fluid treatments, gear oils and water dispersible, biodegradable cutting oils, are new commercial products resulting from collaboration between the private sector and the High Erucic Acid Development Effort, a consortium of universities, government laboratories and private companies that is managed by the CSRS Office of Agricultural Materials.

Mr. chairman, that concludes my prepared remarks. I will be pleased to answer any questions.

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#### STATEMENT OF DR. MYRON D. JOHNSRUD

Mr. Chairman and members of the Committee, I appreciate the opportunity to discuss the status and programs of the Extension Service and the ongoing cooperative partnership with the Land-Grant Universities and local Extension offices nationwide that comprise the Cooperative Extension System.

This summer I will reach my seventh year as Administrator of the Extension Service—USDA. During that time, with the assistance of the Executive Branch and the guidance of Congress, the nationwide Extension system has been building a firm foundation as a dynamic national educational network for the 21st Century. The anchors of this foundation are "issues programming" and "strategic planning".

In the mid 1980's, the Extension System was challenged by the Executive Branch to prove its worth to the American public, in its traditional arena of agriculture, as well as addressing other societal problems, towards which Extension conducts educational programs. The Extension System responded to this challenge with a commitment to addressing important societal issues through the establishment of National Initiatives. These Initiatives are the current, most significant and complex issues on which the Extension System can make a difference.

Current National Initiatives include: Communities in Economic Transition; Decisions for Health; Food Safety and Quality; Plight of Young Children; Sustainable Agriculture; Waste Management; Water Quality; and Youth at Risk.

The Cooperative Extension System has recognized the need to systematically allocate educational program resources to these current and emerging issues. We are using a strategic planning process and a systems method to program development, delivery and evaluation. Through issues programming, the Extension System identifies and addresses the critical concerns of Americans.

By focusing on the critical issues of our nation, as well as realigning Extension educational base programs into a set of dynamic, changing, results-oriented programs, the System has reallocated and received significant resources on the national, state and local levels. The \$425 million Federal appropriation provided by Congress for 1993 is the base that generates over \$944 million from the States and local governments and the private sector.

However, while the total resources of \$1.4 billion reflects a healthy nationwide system, many of our State and local partners are facing really difficult budget situations. This puts even more emphasis on our issues programming and strategic planning activities throughout the System. The Extension System must do the best job it can in using its resources to meet its mission as the educational agency of the Department of Agriculture.

The Base Programs, supported mainly with the Smith-Lever formula and 1890's funds, provide for major educational efforts central to the mission of the System. Through these funds, the Federal Government has on "retainer" a nationwide cadre of highly trained and competent, scientific professionals. This is crucial for tackling specific issues and challenges focusing on agriculture, communities, and families.

Equally important, USDA and the research community depend upon the Extension System to help identify food, agricultural, consumer, and societal problems to assist in the design and conduct of research and to help convert research results into practical and usable forms.

Seven Base programs are the foundation of the System. The base programs are: Agricultural Competitiveness and Profitability; Community Resource and Economic Development; Family Development and Resource Management; 4-H and Youth Development; Leadership and Volunteer Development; Natural Resources and Environmental Management; and Nutrition, Diet and Health.

#### FISCAL YEAR 1994 BUDGET

The President's Budget requests a total of \$431,264,000 for the Extension Service in fiscal year 1994. This is a \$6.3 million increase over the fiscal year 1993 appropriation.

The Smith-Lever 3(b)&(c) funds are the primary federal funds that support the Base Programs, which are matched by the state and local funds. These funds are increased 2.7 percent to \$270,000,000 in the President's request to cover the cost of doing business.

Federal funds also support Smith-Lever 3d programs and other earmarked programs authorized primarily from the various "Farm Bills". These funds are allocated to the States and other cooperators to address special programs or concerns of regional and national importance. A majority of these funds are distributed according to the extent of the problem that requires attention in each State, the remaining funds are awarded under a project proposal process that focuses on building quality issues-targeted programs that can be replicated throughout the Nation.

The following are brief summaries of the earmarked programs and the requested funding levels for fiscal year 1994.

The Renewable Resources Extension Act provides funding to all States for expanded natural resources education programs. A 2.7 percent increase is requested for the ongoing program. An additional \$1 million is requested for Extension RREA programs which will be part of the Administration's Forestry Research Initiative. The Initiative which also includes Forest Service and the Cooperative State Research Service was designed to improve the Nation's understanding and management of forestry and other related ecosystems. Additional funding here will assure that scientific developments are rapidly transferred to natural resource managers. The total requested for fiscal year 1994 is \$3,841,000.

The Expanded Food and Nutrition Education Program (EFNEP) provides funds for educational programs to low-income families to increase nutrition knowledge and improve nutritional practices. An increase of 2.7 percent to \$62,201,000 is requested for fiscal year 1994.

The Pest Management program consists of two major components: integrated pest management and cotton pest management. Programs address the efficient control of pest complexes on crops and livestock and in urban situations. This line item has a requested funding level of \$8,565,000 for program enhancement.

Pesticide Impact Assessment programs provide for the most objective and accurate data available for defining and evaluating benefits and risks of selected pesticides having critical agricultural and forestry uses and is requested at current funding levels.

The fiscal year 1994 Budget requests \$1,000,000 for Farm Safety programs addressing occupational health and safety and training for first on-site emergency response teams.

Extension Service supports regional Rural Development Centers in Pennsylvania, Mississippi, Oregon, Iowa, and North Dakota. The Centers' programs are designed to improve the social and economic well-being of rural communities in their respective regions and funding is requested at current levels.

The Water Quality educational program addresses the management of potential non-point source pollution on water quality from pesticides and plant nutrients used in agriculture. Funds are provided to States for Demonstration Projects, Hydrologic Unit Area projects and other initiatives within the USDA Water Quality Plan and are requested at current levels.

The Youth at Risk program, initially funded in fiscal year 1991, is now conducted in 96 sites nationwide. The program has generated significant support and resources from local governments, private foundations, and service organizations. The programs provide educational experiences for youth in the areas of science and technology, literacy, and other pressing needs of the nation next generation. A \$2 million increase to \$12 million is requested in fiscal year 1994 for program enhancement and expansion of projects to additional sites.



Funds for Food Safety projects have been awarded to the States for model programs to educate food handlers, reduce the risk of foodborne illness and to minimize hazards in maintaining a safe food supply. A \$500,000 increase to \$2 million is requested to provide funding to all States to address these national concerns.

Ag Telecommunications projects were initiated in fiscal year 1992. The programs are satellite-delivered through AG\*SAT and supported with materials and computer-based instructions addressing program categories, such as food science, waste management, and sustainable agriculture and are requested at current levels.

Funding for 1890 Institutions and Tuskegee University are increased from \$24,730,000 to \$27,764,000 in the President's fiscal year 1994 Budget Request for the cost of doing business and for targeted priority program initiatives addressing adolescent pregnancy and health, nutrition, and sustainability of small-scale and limited resource farmers.

Extension Service-USDA completed a five year funding program for 1890's Facilities in fiscal year 1992. The \$47.5 million program has been highly successful in enhancing extension facilities throughout the 17 Institutions. In fiscal year 1993, Congress funded an \$8 million facilities program for the 1890's to further upgrade research and extension facilities. This amount is being requested to continue this program in fiscal year 1994 for research, extension and teaching facilities.

The Nutrition Education Initiative, begun in fiscal year 1993, is increased from \$3.5 million to \$7,060,000 for fiscal year 1994. This program targets the Extension nutrition education programs to the WIC program recipients.

Two new programs are requested in fiscal year 1994. \$3 million is proposed for a Sustainable Agriculture program to develop economically viable systems which reduce inputs and move toward whole farm system analysis of environmental, economic, and social impacts. \$200 thousand is requested to develop a New Uses education and training program for Extension personnel and other agricultural professionals relating to the production and commercialization of rapeseed and kenaf.

The Rural Health and Safety grant, is requested at the current \$2 million level to continue the priority model program established with Mississippi State University Cooperative Extension Service and the Mississippi Foundation of Community Colleges to develop programs for rural health care providers.

In order to provide increased funding for high priority programs such as Youth-At-Risk, Nutrition Education and Sustainable Agriculture, the Department is not requesting funding for the Urban Gardening, Indian Reservation Agents and the Disadvantaged Farmers Assistance Grants programs.

We are pleased with and supportive of the President's Budget. The funding proposals will further strengthen Extension programs targeted on priority issues and aid in maintaining the educational base programs throughout the System.

#### STATEMENT OF MARTIN L. ANDREAS

Senator BUMPERS. Mr. Andreas.

Mr. ANDREAS. I am pleased to discuss today, I think, one of the most exciting areas of agriculture. We call it the AARC Center. I have been impressed from the beginning with the unique characteristics of the AARC Center and its mission. I do not know of many agencies, if any, that have Government committees that have only one Federal member on the Board and the rest being representatives of commercial, financial, producer, and scientific interests. We have an extremely high quality Board.

I believe the AARC Center can be a powerful and effective tool in accelerating the identification and the development of new commercially viable products made from crop, animal, and forestry materials. Just in the way of background, the Food, Agriculture, Conservation, and Trade Act of 1990 authorized the AARC Center. On March 6, 1992, the first Board was appointed by Secretary Madigan. The Board convened its first meeting, April 13-14, 1992. At the initial meeting Paul O'Connell was asked to serve as Acting Director. That appointment was later made permanent.

The real first order of business was to schedule eight public hearings around the country. I, myself, am involved in agriculture everyday. I have to say that I found the hearings extremely interest-



ing. They were held in places like Cedar Rapids, IA, Georgia, New Jersey, Oregon, California, Minnesota, Kansas, and Texas.

What was so interesting about those hearings was that we had commissioners of agriculture testify, manufacturers, farmers, farm organizations, coops, commodity groups, foundations, universities, and even State legislators. The Board had to be very impressed with the enthusiasm that came before the AARC Board.

We were urged by many of the witnesses to take a leadership role; to begin to make things happen; to turn ideas into marketplace successes. As a matter of fact, the AARC Center motto is now "Make It Happen." We intend to do that with your support.

We heard witnesses in many cases from the rural areas. Over and over again, there was a resounding theme, what can you do to help the rural economies? How can you establish new agricultural business and new products that can come out of the rural economies? We heard that repeatedly all over the country.

We picture ourselves as being a facilitator for finding these new industrial uses for traditional and new crops, animal byproducts, and forestry materials. In general, what we have done is, I think, stimulated a tremendous amount of interest in the country, showing people that the Government and the USDA does have an interest in these people, their projects, their ideas, and possibly, there is a way for us to help them bring these products to market.

Some of the witnesses suggested during the hearings that we be sure and operate like a business; maintain our independence; avoid bureaucratic-type thinking; keep the application process simple, because they knew we were going to go out and solicit proposals across the country; leverage our resources and see ourselves as an economic development organization.

#### CURRENT ACTIVITIES

I think that we have done that. I think we have moved forward quite rapidly. We have had preproposals submitted and reviewed and then full proposals were submitted in February 1993. In early March, the AARC Board reviewed them. We have cut them down from 407 preproposals that we received around the country, which I thought was nothing short of astounding. We have now cut them and evaluated them, with the help of experts and our Board, down to 20.

The negotiations with those final 20 are in their very final stages. We would expect to fund most all of them very shortly. Those 20 projects involve 14 different plant and animal materials. They include animal fat, kenaf, waste paper, corn starch, soybean meal, soybean oil, industrial rapeseed or crambe, wheat, lesquerella, hesperaloe, grass straw, and lodgepole pine.

Products being derived from these renewable materials include composite building material that looks like polished granite, pulp from new crops, automotive windshield washer fluid using ethanol, biodiesel, grass mats, degradable polymers for food packaging, personal care items and medical products, biodegradable oil for operating equipment in a marine or forest environment, and a concrete form release agent.

These products are all environmentally friendly and create demand for biodiversity on the farm. If I can take a moment, I would

like to just get a few of these products out and show them to you. I think they are some of the products of the future.

#### EXAMPLES OF PRODUCTS

Dr. O'CONNELL. My name is Paul O'Connell. I am the AARC Center Director. This product is the NewStone that Marty talked about. This is made out of soybeans, soybean meal.

Senator BUMPERS. What do you call that?

Dr. O'CONNELL. They call it NewStone. It looks like granite, as you can see. It is made out of 50-percent soy meal and about 40-percent wastepaper, and the rest are chemicals. It can be used along with wood for decorating, for flooring, and for a number of uses. It looks very attractive. It is one of their projects. Do you want to see this?

Senator BUMPERS. Sure.

Dr. O'CONNELL. It is a small company that worked on this and has it at a pilot plant. We are helping them set up a full production operation.

You have probably heard of these. These are packing peanuts. These are 98 percent starch; corn starch, wheat starch, and potato starch.

Senator BUMPERS. They are completely biodegradable?

Dr. O'CONNELL. Completely. You can put that in water, it will break down, and you can drink the water.

Senator BUMPERS. How do they compare in cost to the styrofoam type?

Dr. O'CONNELL. They are a little more expensive than the others, but not significantly so. Actually, the fundamental cost of these can be less than polyethylene. You can buy starch for 11 or 12 cents a pound and polyethylene is 40 cents a pound. Initially, of course, they are going to take advantage of the market. The fundamental cost of these is very good.

This is grass mat made from kenaf fibers. This is a project in California. It is made out of a new crop, kenaf. You roll it on the lawn and you can get your grass going fast and save water. You do not have to worry about erosion and all of those sorts of things. It is a completely renewable product. This product is on the market now and competes with synthetic mats that do not degrade readily.

This product is rather clever. This is one project that we are financing. Rather than making windshield washer out of methanol, this is out of ethanol. Again, a domestically produced renewable product. The technology is very simple, but we use a lot of windshield washer in this country. This is a project that we are working on and it looks very promising. Marty said, I wish I had found the idea. I think he said that anyway. [Laughter.]

Biodiesel is a potentially cleaner burning fuel for diesel engines. It can be produced from soyoil, or you can produce it from waste fat.

That is a project we are looking at also, again, for biodiesel. Rather than using natural gas for inner city for the clean air, biodiesel shows a great deal of promise. We have a project where we are working with the soybean growers in testing this at the EPA-approved labs. We are in the process of doing that right now.

One of the most interesting ones is the last one I have here. This is made out of rapeseed oil for metal cutting. Also, a similar product could be used for marine environments, chain saws, and this sort of thing. We can just put it in this water here. I will show that the old adage that water and oil does not mix is just simply not true.

[Demonstration.]

You can see here that this emulsifies very quickly. This allows the lubricant to be diluted with water yet to perform well. In addition, it allows fungi and bacteria to break this down very quickly so that it will disburse. This product is manufactured by a small company that we are working with out of the State of Washington. Mobil is working on a biodegradable lubricant from vegetable oil too.

This is made out of vegetable oil. It will break it down much quicker than petroleum oil. In a marine environment, any boats or anything like that, chain saws, this can be a great advantage. In this case, this is cutting oil. Again, it is easier on the hands; all kinds of advantages. These are just a few of the products.

Senator BUMPERS. What is relevant as to whether that mixes with water or not?

Dr. O'CONNELL. It can be diluted with water for use in lubricating metal cuts and it disburses and it allows the fungi to break it down quicker. It does not bob up like oil does.

Senator BUMPERS. You are talking about if it runs off and goes into a stream or something like that?

Dr. O'CONNELL. Absolutely. Besides, being vegetable oil, it will break down quicker anyway.

Senator BUMPERS. Thank you very much.

#### CONCLUSION

Mr. ANDREAS. I will just finish up here quickly. I will just make the point that on the AARC Center projects, less than 50 percent of the R&D funds that are required to bring these new products on will be AARC Center money. The cooperators will at least match the AARC Center funding. These people are putting up the money for these projects. They have to believe in it because it is their own money.

I would also mention that of the 407 projects that we received, our Board evaluated that at least one-half of the projects had definite merit. I would remind you that we were able to fund 20. There is an awful lot of good ideas out there for agriculture that, at the moment, you might say are going begging.

I would like to make a point on Europe. Dr. Paul O'Connell just got back from Europe last week. The purpose of his visit was to get an update on what the European Community is doing in this area. I think it was quite an eye opener. They have demonstration projects going on value added uses for both agriculture and forestry materials as we do.

Since 1988, an interesting figure, the European Community has committed the equivalent of \$440 million to these types of efforts. There is, in many cases, more money being spent than in this country in that direction. Some of their projects are surprisingly large.



The largest demonstration project that Paul came across was on biodiesel. They are using the equivalent of \$66 million over 4 years for biodiesel research in Europe alone. Needless to say, of course, there are more diesel vehicles in Europe than here. They have very active programs over there. I would suggest that our country should begin to interface more with the Europeans since anyway that both countries can use up surpluses, it will benefit us all. Thank you.

#### PREPARED STATEMENT

Senator BUMPERS. Thank you, Mr. Andreas. We have your complete statement and it will be made part of the record.  
[The statement follows:]

#### STATEMENT OF MARTIN L. ANDREAS

Mr. Chairman and members of the Subcommittee: On behalf of the AARC Board, I want to thank you for the opportunity to discuss the ongoing activities of the Board and the AARC Center.

From the beginning, I have been impressed with the unique characteristics of the AARC Center and its mission. I don't know many, if any, government agencies that have one federal member and eight non-federal representatives of commercial, financial, producer and scientific interests setting policy and program directions. I believe that AARC can be a powerful and effective tool in accelerating the identification and development of new commercially-viable products made from crop, animal, and forestry materials.

Mr. Chairman, the AARC Board concurs with a recent report issued by the National Academy of Sciences. The report, entitled *The Government Role in Civilian Technology*, found that private industry is better suited than public institutions to determine market winners. The report points out that cost-sharing is one of the most effective ways to ensure that a project will achieve market success. We agree. While the level of cost-sharing may vary from project to project, the Board will give great weight to the level of private financial resources involved in determining which projects to support.

The AARC concept is right for the times. With increasing international competition in the marketplace, public-private cooperation and partnerships are critical to the quick and effective movement of new technology from government, university and institute laboratories to the marketplace. I firmly believe that the central operating principle of AARC must be cooperation with the private sector. In essence, AARC is a service organization dedicated to assisting private industry accelerate the development of economically-viable, new, agriculturally-based products and materials that expand markets for agriculture while spurring rural development including the creation of jobs.

#### BACKGROUND

The 1990 Food, Agriculture, Conservation and Trade Act authorized the Center and in March 1992 the first Board was appointed by former Agriculture Secretary Edward Madigan. The Board convened its first meeting in April 1992 and elected me as Chairman. At the initial meeting, the Board also asked Dr. Paul F. O'Connell to serve as Acting Director. The Board has since made Dr. O'Connell's appointment permanent.

The Board's first order of business was to schedule eight public hearings to obtain input before we contemplated policy and program decisions. These were held in Iowa, Georgia, New Jersey, Oregon, California, Minnesota, Kansas, and Texas. The Board heard from more than 200 individuals and organizations. We heard from Commissioners of Agriculture, processors, manufacturers, farmers, entrepreneurs, farm organizations, commodity groups, cooperatives, foundations, universities, and state legislators.

The Board was impressed and encouraged by the enthusiasm of witnesses for the AARC Center approach. We were urged by many witnesses to take a leadership role, to make it happen, to help turn ideas into marketplace successes. The AARC Center has since adopted the motto, "Make It Happen," and we fully intend to do exactly that with your continued support. We heard from witnesses that many rural economies need an economic "shot in the arm" and that new, industrial, non-food,



and non-feed uses of agricultural materials can help provide that medicine. We heard repeatedly that the AARC Center should be a catalyst, a coordinator, and a facilitator for finding new industrial uses for traditional and new crops, animal by-products, and forestry materials. Some witnesses told the Board that more fundamental research is needed to support new product development and we believe that to be true. However, the majority of the witnesses identified precommercial demonstration and testing activities as the most critical area for the AARC Center's focus.

Themes that were replayed throughout the hearings included: Operate like a business; Maintain independence and avoid bureaucratic thinking; Keep the application process simple and minimize red tape; Leverage your resources; and See yourself as an economic development organization.

#### STRATEGIC PLAN

To guide our actions, we prepared a strategic plan. The mission of the AARC Center is to accelerate the commercialization of industrial products from farm and forestry materials—creating jobs and economic activity. A copy of the plan has been provided for you, and I will highlight some key points.

Some fundamental beliefs:

- The U.S. has abundant natural resources to meet food, fiber, and industrial demands;
- A gap exists between research advances and private sector ability to assume risks involved in commercializing new products/processes;
- Private sector direction and active participation are needed for successful product development.
- New technological and scientific tools such as genetic engineering, new fermentation approaches, and chemical catalytic processes have opened non-traditional markets for farm and forestry products.

The key functions of the AARC Center are:

1. *Be a Catalyst, Facilitator and Coordinator.*—Enhance cooperation to build partnerships between and among appropriate state and federal agencies, universities and private companies that accelerate commercialization and long-term viability of bio-based ventures.
2. *Form Private/Public Partnerships.*—For pre-commercial projects, encourage private-sector sponsorship with the AARC Center generally providing less than 50 percent of total funds.
3. *Project Funding.*—Develop a portfolio of long-/short-term projects with an initial mix providing significant sales within three to five years.
4. *Information Exchange.*—Facilitate the collection and dissemination of information concerning AARC Center projects and provide this information to others building data and information bases for industrial products from agricultural and forestry materials.

Also, in the plan are responsibilities described for the Board, staff, regional centers and the private sector. One of the key points is the manner in which success will be measured. Performance indicators are not the number of government reports, but such items as number of products penetrating the market; number of rural jobs; quantity of agricultural and forestry materials used; and how the products/processes enhance the environment.

#### CURRENT ACTIVITIES

On August 17, 1992, the Federal Register listed the first request for preproposals. In this initial request, the AARC Center received 407 proposals with total budgets of \$448 million, of which \$175 million competed for the \$10 million available from the Center (2.5 to 1 leveraging of Federal dollars).

In November, preproposals went through a comprehensive review process in line with the enabling legislation and guidelines from the Board. Three outside specialists, including at least one with business experience and another with technical knowledge, plus the AARC Center staff reviewed each preproposal. After considering reviewers' comments and using their own judgment, AARC Board members met in December and selected 48 for further consideration. Oral presentations were held for biodiesel and lignocellulose conversion proposals because of their similarity and number—to assure selection of the most promising ones for full proposal submission. Full proposals from successful pre-proposal applicants were submitted in February 1993, and in early March, the AARC Board reviewed them and agreed to fund 20. Negotiations with successful applicants are now in their final stages.

These 20 projects range from small start-up operations to large impact technologies and involve 14 different plant and animal materials. They include animal

fat, kenaf, waste paper, corn starch, soy meal and oil, industrial rapeseed or crambe, wheat, lesquerella, hesperaloe, grass straw and lodgepole pine. Products being derived from these renewable materials include: composite building material that looks like polished granite; pulp from new crops; automotive windshield washer fluid using ethanol; biodiesel; grass mats; degradable polymers for food packaging, personal care items and medical products; biodegradable oil for operating equipment in a marine or forest environment; and a concrete form release agent. These products are environmentally friendly and create demand for biodiversity on the farm.

In general, AARC resources will provide less than 50 percent of the R&D funds required to bring a new product or process to tee market. The intent is for the private partner to decide which new use will survive in the competitive business world—and that can best be determined by requiring successful applicants to provide a major share of start-up costs.

#### 1994 BUDGET REQUEST

For fiscal year 1994, the Administration is requesting an increase of \$12,750,000 for activities of the AARC Center (\$7,250,000 available in 1993) for a total of \$20,000,000. Of the 407 pre-proposals reviewed in 1993, at least half of them had merit. A number of factors have come together to make the use of farm and forest materials in industrial uses more viable in the 90's. They include:

- More efficient technologies for processing and manufacturing, i.e. with biotechnology, continuous fermentation and chemical catalytical processes.
- Environmental and regulatory requirements for clean air and water, landfill alternatives, disposability and renewability.
- Availability of skilled labor and resources in rural America.
- Increased pressure to reduce agricultural subsidies.

#### CONCLUSION

While ideas for new industrial uses have been around since the 1930'S, there has been no consistent effort to make them commercially viable. When surpluses were high, a big push occurred. When supply was more in line with demand, interest waned. Now, consistent commitment is becoming more evident. For example, in 1992, non-traditional uses (such as sweeteners, ethyl alcohol, and industrial starch) of corn equaled corn exports. By the year 2000, industrial uses are expected to consume an estimated 2.4 billion bushels of corn—a billion bushel increase!

More than 70,000 acres of industrial crambe and rapeseed are now grown annually for lubricants, plastics and anti-foam agents. Crambe production has grown from a demonstration with 2,200 acres in 1990 to approximately 60,000 acres this year. In 10 years, expect to see 300,000 acres of those crops. Biodiesel, degradable starch polymers, adhesives, inks, paints and paper products from agricultural materials provide other promising growth areas.

As new markets develop, farmers and rural America will become far less dependent on federal farm program payments—thus reducing federal outlays. Better demand for product will more fully utilize our agricultural capacity and infrastructure. We will see rural economies improve—and the nation's economy as a whole—will benefit.

This completes my testimony Mr. Chairman. I will be glad to respond to questions during the discussion.

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#### BIOGRAPHICAL SKETCH

DR. PAUL F. O'CONNELL

Paul F. O'Connell was appointed as the initial Director of the Alternative Agricultural Research & Commercialization (AARC) Center in 1992. This is an independent entity within USDA with policy direction provided by a 9-member Board of Directors, 7 of whom are from the private sector. As Director, Dr. O'Connell is responsible for day-to-day management of the AARC Center. The AARC Center's mission is to expand industrial (non-food, non-feed) uses of agricultural based materials. The four major functions are to: be a facilitator; encourage private-public partnerships; fund promising projects; and serve as a information clearing house.

Prior to his current appointment, Dr. O'Connell served as Deputy Administrator for the Cooperative State Research Service (CSRS), U.S. Department of Agriculture. He provided leadership for national programs whose objectives were to find alternative opportunities for U.S. farmers. Major program areas included sustainable agriculture, industrial uses, aquaculture, and small-scale farming.

Prior to his tenure as Deputy Administrator of CSRS, Dr. O'Connell served for 3 years as Special Assistant to Orville G. Bentley, Assistant Secretary for Science and Education of USDA. Earlier professional experience involved 14 years with the Forest Service; 2 years with the Economic Research Service; and 3 years in the private sector. With these organizations, Dr. O'Connell served as Assistant Director, Project Leader, and Economic Analyst in Wisconsin, Arizona, and Minnesota.

Dr. O'Connell earned his B.S. degree from the University of Minnesota, majoring in Biochemistry and Dairy Science. He obtained two master degrees—one from Colorado State University and one from the Wharton School, University of Pennsylvania. These were in Agriculture Economics and Business, respectively. His Ph.D. degree was earned from the University of Wisconsin. He has received the USDA Superior Service Award, several cash awards, and certificates of merit. He is author or co-author of publications in science and education policy, natural resource issues, and commercialization of promising technologies.

#### AARC BOARD OF DIRECTORS

Senator BUMPERS. Mr. Andreas, what relationship are you to Dwayne?

Mr. ANDREAS. He is my uncle, sir.

Senator BUMPERS. Your uncle?

Mr. ANDREAS. Yes, sir.

Senator BUMPERS. Is that the reason you sky rocketed in that company so fast? [Laughter.]

Mr. ANDREAS. I would like to not think that.

Senator BUMPERS. Do you remember that old cartoon about the president calling this young man in and saying, you have shown remarkable growth and progress here, and goes on to say, I am going to promote you to vice president. He says, thanks, dad. [Laughter.]

ADM is a really fine company. As a matter of fact, I used to own stock in it. While my attention is focused on your testimony, Mr. Andreas, let me ask you, in your testimony, you said you had over 400 applications last year. Incidentally, how many members are on the Board?

Mr. ANDREAS. As required by legislation, there are to be nine Board members.

Senator BUMPERS. Who are some of the other members? How much of your time does it take?

Mr. ANDREAS. I think if any of us were told before we got on the Board, we would not have done it. It has been really quite time consuming to evaluate 400 intelligent proposals from around the United States. It was a herculean job. We did bring in experts and so on.

Some of the other people on our Board are Jerry Caulder, president of Mycogen, one of the high-technology firms in this biotech area; John Fujii, director of technology, from James River, the paper firm; Ralph Hardy, who was with DuPont for 30 years; and Lee Reeve, who is in the cattle and ethanol business. I think we have an outstanding Board. This has really been a pretty major undertaking.

Senator BUMPERS. Your Board only reports to the Secretary; is that correct?

Mr. ANDREAS. Yes, sir.

Senator BUMPERS. Where does that leave Dr. Finney, out in the cold? [Laughter.]

Are you duplicating any of these efforts, Dr. Finney?



Dr. FINNEY. No, Senator. We work very closely with the private sector in terms of moving our research results from the laboratory to the private sector. This is a very complimentary effort. In fact, the product that is referred to as the biodegradable starch, some of the basic pioneering work was done at the Peoria laboratory, the National Center for Agricultural Utilization Research. This particular activity, of course, is a very important activity in terms of linking up with the private sector. It is complimentary. We do not overlap, sir.

#### AARC PROJECTS

Senator BUMPERS. Mr. Andreas, these 20 grants, out of the 400 totaling over \$400 million, I think you gave 20 grants that totaled about \$10 million; is that correct?

Mr. ANDREAS. Yes, sir.

Senator BUMPERS. Were those mostly to private corporations or were they to universities?

Mr. ANDREAS. They are mostly private.

Dr. O'CONNELL. Fourteen of these projects went to small firms. One is with an agriculture cooperative. Two are from nonprofit organizations. Three are medium-sized firms and two are large firms. Basically, all of them went to private firms. Out of that 20, 14 went to small firms.

Senator BUMPERS. Those products you just showed us there, are you telling me that those are projects of these grants?

Dr. O'CONNELL. These are the products which we have gone into partnership with to help them get over the hump, to get them to the point where they are making money, and can go to the bank and get their own financing. We help them with the development activity.

Research is done at ARS, at universities, and so forth. What we are doing is closing the gap between the research results and commercialization. These products are things we hope to have on the market with these companies where they are selling them, making money, and creating economic activity in rural America.

Senator BUMPERS. Who patents these things when you develop them?

Dr. O'CONNELL. The patent belongs to the companies. Many times, the patents, if there were patents, the company already had them.

Senator BUMPERS. Let me ask you something. This has been a question, not just in this committee, but in NIH and in a lot of other committees. The patenting process has always been controversial around here. Do you think it is fair for us to give a company the money to develop a product and then let them patent it? Why should not the United States receive a royalty for those products?

Dr. O'CONNELL. You need to understand, on these projects, we have these set up so that we get a payback. In other words, these are set up in a revolving fund. The money that we put into this, every one of these, we have a payback arrangement.

Senator BUMPERS. Oh, you do?

Dr. O'CONNELL. Yes.

Mr. ANDREAS. Yes.



Dr. O'CONNELL. Either we get equity, or we are going to have a percent of sales paid back, with interest. We are going to get at least 2-percent above the Federal interest rate. Those are the two main ones. The other one is just a payback arrangement of some kind. We plan to get the money back on successful projects.

Senator BUMPERS. These are not grants at all?

Dr. O'CONNELL. These are not grants.

Senator BUMPERS. That is a very unique idea. We may submit additional questions to you in writing on this. That sounds extremely interesting. Dr. Finney, while we are on these products now, you have furnished us a list of products that the Agricultural Research Service has developed. Incidentally, you are familiar with this yellow compilation; are you not?

#### LESQUERELLA LIPSTICK

Dr. FINNEY. Yes, sir.

Senator BUMPERS. When were these products developed? Over what period of time? These products here I have, it looks like lesquerella lipstick. [Laughter.]

Dr. FINNEY. Yes, Mr. Chairman.

Senator BUMPERS. We are all interested in lipstick.

Senator FEINSTEIN. I am. [Laughter.]

Senator BUMPERS. Senator Feinstein is vitally concerned with this product.

Dr. FINNEY. Lesquerella is a new crop. The idea, of course, is to try to diversify the economic returns to American farmers by looking for new crops that will allow them to enter new markets. Lesquerella is an alternative new crop that we are doing researching on in Arizona and cooperatively with other groups to develop a product that we can deliver to the consumer market.

Lipstick happens to be one of many products that we would hope that would come from lesquerella as a new product in terms of health care and in terms of other products. This product is in the early stages of development. Normally, it takes anywhere from 3 to 5 years in terms of having that product successfully developed.

As the writeup indicates, the work is going on primarily in Arizona. We also are doing cooperative work with Agrigenetics in San Diego, CA. This is a new product that we hope will provide the real opportunities for farmers to new crops.

Senator BUMPERS. Dr. Finney, without going through all of the lists of these new products, you have a cotton kerchief.

Dr. FINNEY. Yes, sir.

#### POTATO CHIPS

Senator BUMPERS. Potato chips. This potato chip product looks fairly interesting to me, but does this include irradiating the potatoes so that they will last longer in cold storage?

Dr. FINNEY. No, sir.

Senator BUMPERS. That is not a part of that?

Dr. FINNEY. This is not a part of the food irradiation project.

Senator BUMPERS. Just briefly, what is this new potato chip? What makes it different from other potato chips?

Dr. FINNEY. The primary interest in this particular chip, sir, is that the raw product was a new variety of potatoes that has inherent resistance to nematodes. As you are aware, there are concerns about agricultural chemicals in the environment, we are seeking new varieties that can grow without having to use those products.

This particular variety is a new product that is an excellent chipper, but has inherent resistance to the golden nematode. It was developed cooperatively with the Agricultural Experiment Station in New York. That is the primary interest in this product.

Senator BUMPERS. It is really a new potato then that is used for potato chips.

Mr. FINNEY. Yes, sir; that is correct. Yes, Mr. Chairman.

#### LUPINE PASTA

Senator BUMPERS. Spaghetti. I was interested in that because you have got a new lower calorie spaghetti; is that right?

Dr. FINNEY. As you know, the American people are very much concerned about their health and well-being. They are very much aware that what they eat, of course, influences their health. The research community is looking at new products that will have better nutritional characteristics. This particular spaghetti will have that component in terms of its market potential.

Senator BUMPERS. Senator Cochran, did you ever hear of lupine?

Senator COCHRAN. No.

Senator BUMPERS. How can you be a ranking member of this committee and never heard of lupine? [Laughter.]

I have known about it for about 10 minutes. [Laughter.]

Lupine is a grain crop that is a return to the good old days of the 1940's when there was a "Lupine Belt" in the Southeast. It is this product that makes its own nitrogen.

Dr. FINNEY. Yes; it is a nitrogen fixation product that, of course, will reduce the need for chemical fertilizers.

#### RICE BRAN CEREAL

Senator BUMPERS. That is an interesting product. I have a vital interest in rice. You have a rice bran cereal here. This rice bran cereal is the byproduct of milling rice from brown to white; is that correct?

Dr. FINNEY. Yes, sir.

Senator BUMPERS. Is that just the powdered kind of substance? I have watched that being done. I just thought it was dust.

Dr. FINNEY. This would normally have been a waste product, a byproduct of the milling industry. Through some of the research at the Western Regional Research Center in California, they were able to improve this product by adding some nutritional and processing characteristics that makes it a successful commercial product nutritionally as well as economically. This is the new product that we wanted to call to your attention today.

Senator BUMPERS. You can make rice oil out of it; do you think or salad oil rather?

Dr. FINNEY. I am not sure about that, sir. Primarily, it is a breakfast cereal. We are trying to recover a waste product.

Senator BUMPERS. It just generated a new interest and the possibility of making it a new salad oil. Here is what this statement says, "In addition to being used in breakfast cereals and baked goods, the bran has generated renewed interest as a domestic source of high-quality salad oil."

Dr. FINNEY. That is probably a spinoff from the work that we did originally for the bran as a breakfast cereal. They are looking at it as a potential for salad oil, but it has not reached that stage of development yet.

#### FOOD IRRADIATION

Senator BUMPERS. Finally, as I was about to say a moment ago, a thing that is of great interest to people like Betty Bumpers is irradiating foods. First of all, who has the final say on whether or not a food may be safely irradiated? Does the FDA do that?

Dr. FINNEY. The Food and Drug Administration would have the responsibility for that final approval.

Senator BUMPERS. Here, you have listed mushrooms as a new product. You say these mushrooms will stay fresh twice as long because they were treated for just a few seconds with a low dose of gamma radiation. Is this an experimental project so far?

Dr. FINNEY. Mr. Chairman, food irradiation is used on a limited basis on a number of products, including of course irradiating potatoes for prohibiting sprouting. There is some irradiation for controlling of insects in spices. As you are aware, there was some work done recently on the experimental use of irradiation use on strawberries in terms of preserving them and extending their shelf life.

The mushroom is not a new product, but it is a product that has an extended shelf life through the use of irradiation. It is extending the shelf life through this process that is new rather than being a new product itself.

Senator BUMPERS. This is, of course, as I say, it has been controversial simply because I guess maybe we do not—I guess FDA thinks they know. The ordinary consumer is wary of irradiated foods. In your statement, you say that "Twenty-five percent of the world's food supply is lost to spoilage or pests." That is a really unbelievable statement, is it not, that 25 percent of food in this world is spoiled when we have so many hungry people?

Then you go on to say, "Irradiation approved by the Food and Drug Administration for use on fruits, vegetables, and poultry to retard spoilage and destroy bacterial contamination leaves no residue in a product." My next question is, do we have irradiated foods on the market now?

Dr. FINNEY. We have some experimental products. For example, the strawberries that I referred to earlier. They were marketed this year under an approved use by the Food and Drug Administration. That is one product.

Senator BUMPERS. Is there a requirement for a sign in a grocery store to say that foods have been irradiated?

Dr. FINNEY. I do not believe there is a current requirement for a sign in a grocery store to say that irradiated foods are for sale, though it would probably be good for consumer awareness and education.



Senator BUMPERS. There is a gentleman sitting behind you that acts like he knows all about it, shaking his head, no.

Dr. FINNEY. There is no requirement now for the store to display a sign or symbol, Mr. Chairman. As you know, there is a great interest on the part of consumers that products so treated would be required to have some type of sign or symbol on them. There is a requirement that the container or display package carry a small green symbol indicating that the produce has been irradiated.

Senator BUMPERS. "Irradiated foods are marketed in 35 countries and mushrooms are provided by Vindicator, Inc., Plant City, FL, the only food irradiation facility in the United States." Is that still correct that we only have one irradiation facility in the country?

Dr. FINNEY. Vindicator, Inc. is the only one I am aware of that is irradiating produce, but there are several other contract processors in New Jersey and Maryland. These facilities are primarily used for sterilization of medical supplies, but also process spices.

Senator BUMPERS. Dr. Jordan.

Dr. FINNEY. Dr. Jordan perhaps may have some knowledge of that.

Dr. JORDAN. Iowa State University has a food irradiation project special grant. That facility is now up and running, Mr. Chairman. There are some others around the country as well.

Senator BUMPERS. Do you think irradiated foods have a great future in this country?

Dr. JORDAN. Yes, sir; I do not think there is any question about it. It is a matter of education more than anything else. Probably the unfortunate thing, Mr. Chairman, is that the word "irradiation" makes people think of nuclear somehow or another. Yet, they will use their microwaves and they will say they "nuked" their dinner. They will convert a noun into a verb. It does not seem to bother us. There is an educational issue here, Mr. Chairman.

Senator BUMPERS. I am concerned about that because, as you know, not only do we produce half the rice in the country, we produce a big sizable chunk, by far more than any other State, of poultry. We are always apprehensive about what they are going to do to us on poultry inspection. Is this a possible solution to inspecting both red and white meats?

Dr. JORDAN. No question, Mr. Chairman. It is not only possible, it is perhaps the preferred route to go.

Senator BUMPERS. Secretary Espy has testified that is high on his list, a new more sophisticated inspection of our food chain. This is, of course, probably coming anyway, but because of the outbreak of E. coli in the Northwest and Western part of the country, I guess it is coming.

#### COORDINATION EFFORTS

My final question of you two gentlemen is, and I have got a bunch more questions, but I want other members to have an opportunity to ask their questions. I want to be sure that these efforts are being coordinated, Dr. Finney. In other words, are you Chairman of the Board, Mr. Andreas?

Mr. ANDREAS. Yes.

Senator BUMPERS. This Board that Mr. Andreas chairs sounds like a pretty exciting thing. You all are asking for an increase from



\$7.25 million this year to \$20 million. I would be inclined to say that I would support that, but I have to withhold judgment because you know we are going to be under terrible budget constraints about what we can do this year.

I would torpedo the space station and super collider in a New York minute to do something that really meant something like this. I mean, that is nothing in the world but a welfare project for Texas. In any event, I do not want to get off the subject here. I would not say that if I were running in Texas, but happily, I do not have to run in Texas.

I do want to make sure that we are coordinating the efforts of the Research Service. The fact that you do not report to Dr. Finney, you report to the Secretary only gives me a little pause about who is reporting to who, and how much coordination is there between your research efforts on these new products. Do you want to say something on that?

Dr. O'CONNELL. Yes; I have already mentioned the project reviewers and so forth. A number of those were reviewers from ARS and universities. In fact, they were some of the key technical reviewers of our projects. In the 20 projects that we have, a number of those are ARS projects that they had worked on and they had brought through the basic research phase. They looked interesting enough to a private company that they said, Yes, this is something we want to put 50 percent of our money in. If you will help us get this thing going—we are working at a different level in general than where ARS is.

We are at that point where we want to bring these projects to the markets. At that phase, not to just let them sit there; not let them sit in research results and so forth. Of the 70 reviewers, I would say a large number of those are ARS scientists and university scientists.

Senator BUMPERS. One final question. Does the law require you to get a 50-percent match?

Dr. O'CONNELL. At least.

Senator BUMPERS. Do you sometimes get more?

Dr. O'CONNELL. Yes.

Mr. ANDREAS. Yes.

Senator BUMPERS. Fine. Senator Cochran.

#### METHYL BROMIDE

Senator COCHRAN. Mr. Chairman, thank you very much. Dr. Plowman, in your testimony you mentioned the cost to consumers of EPA's ban of methyl bromide—actually, the cost to producers and consumers—is estimated to amount to \$1 to \$1.4 billion per year. This decision obviously has far-reaching consequences for U.S. agriculture.

I know that a research agenda was adopted in January to develop alternative treatments to replace methyl bromide fumigants. Is any of this research underway? Have the plans been implemented? If so, to what extent? What kind of progress do you expect to make in developing environmentally safe alternatives to methyl bromide?

Dr. PLOWMAN. I can tell you this. It is going to be a very difficult task to do. We do not have anything on the shelf right now that

looks very promising in replacing that product. We must almost start from the beginning. Unless we reprogram and do some other things, we do not have additional new resources to put into methyl bromide alternatives. We think it is very, very important for us to do that. It is one of our highest priority items.

#### NUCLEAR POLYHEDROUS VIRUS

Senator COCHRAN. Dr. Finney, at the Midsouth Research Center in Stoneville, ARS has initiated pilot tests on a virus that is highly selective. When this virus is applied, it has no environmental effects on any other plant or animal species other than the tobacco budworm. This is probably the most costly cotton insect pest in the Nation.

Producers in our region of the Nation are excited about the prospects for this research project. I want to be sure we are moving forward as quickly as we possibly can to determine the feasibility of this control method that could translate into literally hundreds of millions of dollars in cotton production income.

How long will it take to complete this important research project, in your judgment?

Dr. PLOWMAN. Senator, we have set aside some funds this year to begin the process of a 1994 pilot test using this nuclear polyhedrous virus that has been developed with the research laboratory program at Stoneville. The estimated cost of this pilot test would be about \$688,000.

The Agricultural Research Service has set aside about \$188,000 out of its funds for the current year to do the planning and developing of the material that will be needed next year to stockpile that virus for large-scale experimental tests next year. We are having discussions with the research staff at Stoneville and with the farmers groups in terms of doing whatever is necessary to carry that forward in 1994.

#### AQUACULTURE

Senator COCHRAN. Very encouraging. Dr. Jordan, the Department of Agriculture indicates in its budget summary that aquaculture is the fastest growing sector of American agriculture. The fiscal year 1994 budget proposes only a 2.8-percent increase in operating costs for the five regional aquaculture centers. What additional resources are proposed for fiscal year 1994 to meet the growing demands for fisheries products through our aquaculture enterprises?

Dr. JORDAN. Senator Cochran, we are very, very pleased to see, for the first time really, the administration get strongly behind those aquaculture centers. They do constitute a significant core of the aquaculture program. Through the Cooperative State Research Service Program alone, the aquaculture centers, had more than 60 regional projects in operation.

It constitutes the core, but not the sole amount of money in aquaculture. The other parts of that come out of two other types of programs within the agency. One, of course, is the Hatch Act, McIntire-Stennis, and in particular, the Evans Allen formula programs which each have significant amounts. The other significant

amount comes out of the National Research Initiative. In addition to that, the Agricultural Research Service has a program in aquaculture. In fact, in Stoneville, MS, we have joint programs and joint execution of programs through that southern center, Senator.

#### MISSISSIPPI RESEARCH FACILITY

Senator COCHRAN. Thank you. You and I were participants in the dedication of an important research center located in Hattiesburg, MS, on the campus of the University of Southern Mississippi—a polymer science research facility. The presentation by Mr. Andreas and his colleague of these new products reminded me of the work that is being done there at that research center.

I had the chance to go down there recently, just as a matter of your personal information, and get an update on the work that has been done at that center since its dedication a few years ago when you and I were there together. Are there any plans to provide some funds for research grants or research projects to carry forward some of these new ideas into the laboratories that exist there at the University of Southern Mississippi?

If so, what is the outlook for the effort to attract dollars from private industry as well as Government resources to see that we utilize those research facilities to the fullest extent possible?

Dr. JORDAN. Senator, that is one of the brightest areas. In fact, you will find alternative agriculture funding in each of the three agencies that are before you today, in addition to the AARC Center, for alternatives. Many of those involve polymers. Of course, the Polymer Institute and the work going on at Hattiesburg, MS, is key to that. They have probably done as much in the cutting edge of this as any organization that we have. We consider them a full member of the agricultural family, as you well know.

They are not alone in that. There are other institutions that are also participating. Furthermore, there are a number of industrial organizations that also participate in the research phase. This is important because what ARS and CSRS, through the university system, does is background research that brings the new products into view, so to speak.

When it looks like it would have real commercial value, the AARC Center does that next step, namely, are there hurdles to get over in order to make it a real product for the commercial world and for use by the American citizens? The answer is, yes. We have several areas in which this is done. Not only through the Special Programs Unit of CSRS, but also let me point out that the Small Business Innovation Research Program which receives funding through an assessment of 1½ percent of the extramural funding of the department.

Now, the USDA program is in the vicinity of \$7 million in 1993. It is a major contributor in this regard. All of these grants go to small businesses. I am absolutely amazed, Senator, at what is being accomplished there. For example, in the last fiscal year, a new mechanism for vaccinating chicks before they are chicks, while they are in their final stage of egg development—they go 21 days to get hatched. On the 18th day, all of these trays, when they are moved from the incubator to the hatchery, go first down a line of needles. They all come in and they are all vaccinated from the top.



They all close up and they go into the hatchery and the chick comes out already vaccinated. That is the kind of product that is coming online, Senator.

Senator COCHRAN. Thank you very much. I noticed, Mr. Chairman, in my last question here, a recent publication from the Mississippi Business Journal in Jackson, MS, talking about an Extension Service project, Dr. Johnsrud, that has been begun in our State.

I understand interest is spreading to South Carolina, Arkansas, Iowa, and other States. It has to do with rural health care which was authorized in the 1990 farm bill, by an amendment offered on the Senate side that was agreed to in conference, and the Mississippi Rural Health Corps which has just received funding to train rural health care professionals.

The Mississippi Community College Foundation, in cooperation with the State health officials and the Cooperative Extension Service, try to make sure that in small towns and in rural areas, we are making a contribution toward improving the quality of life in these areas that are not served as they should be by health care providers.

I wonder, in this connection, does the Department share the view that this article describes that this is proving to be a very successful program in helping to meet the needs of our rural communities for trained health care professionals? Is there consideration being given to extending the program to other States such as those I mentioned and which are represented, at least partially, here on the committee?

Dr. JOHNSRUD. Senator, I would say that program is moving very well in terms of accomplishing what it set out to accomplish. It is progressing on schedule very nicely. It has been successful because it enjoys a fine cooperation amongst the community colleges, Mississippi State University, and the State Health Department. We have been working also very closely with the Department of Health and Human Services in relating the Rural Health Policy Office to the project.

It was established to be a demonstration and hopefully a model for the rest of rural America. We are looking forward to that being the case. Of course, we have it in our budget request for this year to further develop that model.

Senator COCHRAN. Thank you very much. I congratulate you and the people at the Extension Service for the fine job that you have done on that. Mr. Chairman, I ask that a copy of the article that I referred to describing the program and the progress being made be printed at the appropriate place in the record.

Senator BUMPERS. Without objection, it is so ordered.

Senator COCHRAN. Thank you.

[The information follows:]



[From the Mississippi Business Journal]

## COMMUNITY COLLEGES TACKLE RURAL HEALTH DEFICIT

\$2 MILLION PROMISE PROVIDES FUNDING CATALYST FOR PROGRAM

(By Linda Young)

Mississippi community colleges and other state agencies received a \$2 million funding promise from the United States Department of Agriculture (USDA) to back an effort to reverse what college officials call a rural health care deficit.

The Mississippi Rural Health Corps plan was submitted to the USDA as a Mississippi Community/Junior College Economic Development Foundation project about four months ago and recently received approval.

The plan is designed to train more nurses and other health care related professionals who agree to work in rural areas of the state for three years after graduation. The program, also funded by private, local and institutional sources, should begin in January when additional educators are hired at the state's 15 community colleges to alleviate some of the health-care program waiting lists of 3,000 hopeful students.

According to Clyde Muse, president of Hinds Community College and chairman of the College Economic Development Foundation, the partnership including the USDA, Mississippi Health Department, Cooperative Extension Service, private investors, community colleges and foundations will provide a unique delivery system and impact the state economically.

Muse cited a 13 percent vacancy rate for nursing positions in the state which could be reduced by training an estimated 450 RNs, LPNs and other health care professionals in the program's first year and at least 600 in the following four years.

The Mississippi Employment Security Commission estimates the annual demand for trained health specialists should hold at 800 additional jobs through the year 2000.

"It would be like creating a new industry with an average salary of \$24,000 a year for 400 people," Muse said.

However, he said the greatest impact will be improving the quality of health care and quality of life for people in rural areas of the state, making it easier to attract business and industry to those areas.

"Obviously one of the things businesses can do before they grow and prosper is make sure their employees have adequate health care," Muse said.

Eddie M. Smith, president of the Mississippi Community/Junior College Association of Mississippi and East Central Community College in Decatur said the program will have a double impact.

"One of the greatest needs we have in the state of Mississippi is to provide access to health care, especially in rural areas. We're having a difficult time getting trained health care personnel to locate in rural areas," Smith said.

Through the program, colleges will train additional health care professionals and place them in rural areas as a benefit to community health. It will also benefit small rural colleges by providing them with more health care programs.

David Haraway, president of Northwest Mississippi Community College in Senatobia, said to remain certified, a strict ratio of at least one instructor to 10 students must be maintained. By hiring additional instructors with funds raised, Northwest will be able to take 20 to 25 people off the school's waiting list of about 100. After graduation, he said the nurses and other trained health care providers will be sorely needed in the area.

"It would take a good number of years to ever meet the demand that the job market has for registered nurses," Haraway said. "A registered nurse can almost get a job in any town, any city in our nation."

Muse said the "health deficit" plagues Mississippi, a state in which infant mortality ranks above the national average while per capita income is the lowest in the country.

The Corps proposal stated since 1981, 22 Mississippi hospitals have closed and 59 percent of the state counties "are classified by the Health Care Financing Administration as health manpower shortage areas for primary medical care." Additionally, the report stated 52 percent of the state's primary care physicians live and practice in eight counties and serve 35 percent of the population.

To encourage graduates to stay in Mississippi, they will be offered annual tuition scholarships of \$961 in return for three years of service in rural communities in the state. If the service is not fulfilled, the scholarships must be paid back to the schools.

The definition of rural, however, is loose, Muse said.

"Essentially all of Mississippi is rural when you look at national standards. In our minds view, it would be very flexible," he said.

To prepare for additional students, Haraway said community and junior colleges will have to begin negotiating with affiliated hospitals to establish times for clinical training when students leave the classrooms.

Students would have the advantage of completing studies in major clinical facilities in metropolitan areas but working after graduation in rural areas.

"A person does not have to be educated in the rural areas. They could be educated in Hinds or Tupelo or the Gulf Coast and just practice their profession in rural areas."

Smith said personnel trained in the program should enter the rural work force by January 1994 at LPN programs last 12 months and RN programs take at least two years to complete.

Muse said the Corps hopes these health professionals will settle in the rural areas and continue working. However, to continue the plan and replace those that leave after the three-year stint, the Corps plans to ask for matching funds from the 1993 Mississippi Legislature.

#### IRRADIATED FOOD

Senator BUMPERS. Senator Harkin, with your indulgence, I would like to just ask, because I am unclear in my own mind, Dr. Jordan, about the line of questioning we were pursuing a moment ago about irradiated foods. Does the Food and Drug Administration license the permission to irradiate foods on a product-by-product basis? For example, tomatoes one week, and peanuts the next week, and so on. How do they handle that? First of all, is there a general permission right now to irradiate foods?

Dr. JORDAN. I would defer this, if I could, to Dr. Plowman.

Senator BUMPERS. Dr. Plowman, you just got elected.

Dr. PLOWMAN. It is my understanding that each class of foods has to be approved. Fruits and vegetables have a generic clearance at 1 Kilo Gray. Use of any level above that would require special clearance.

Senator BUMPERS. That each product has to be approved?

Dr. PLOWMAN. That is correct, each class of product. I think the last one approved was irradiation of poultry at 3 Kilo Grays. We are currently working with FSIS to obtain a similar clearance for red meat.

Senator BUMPERS. For poultry?

Dr. PLOWMAN. Yes; which is important for us in approving the food safety of poultry products. I might indicate too, I believe there is only one commercial irradiating facility, the one in Florida. That is built solely for the purpose of irradiating food and is available for products other than spices.

Senator BUMPERS. Where did I get the idea that there had to be a sign in the supermarket or something saying this food has been irradiated? Maybe we debated that in an amendment on the floor or something. Are irradiated foods being sold in supermarkets today?

Dr. PLOWMAN. Well, yes, and some that you do not know about. We import some things. Nearly all of the spices that we import have been irradiated before we get them. There is no sign on those that says that. We would not even ask the question probably when they came here.

Senator BUMPERS. I am really thinking more about fresh foods.

Dr. PLOWMAN. I am not going to give you a whole answer because I do not know the answer. There is some requirement that boxes of irradiated foods have to have a symbol on them. I do not know the extent of that. We could find out.

Senator BUMPERS. This subcommittee has jurisdiction over the Food and Drug Administration too. Perhaps we can save these questions for FDA. I am really curious about this.

Dr. PLOWMAN. It is their jurisdiction. They would be much better equipped to answer those questions than we would.

Senator BUMPERS. Senator Harkin.

#### STATEMENT OF SENATOR BOND

Senator BOND. If I could prevail for just 1 minute. I apologize to the witnesses and this committee because I have got three different overlapping hearings going on at once. This is an area of great interest. We appreciate what you are doing at ARS. We have watched some very exciting things going on at the University of Missouri and their food for the 21st century.

I will have some questions to submit for the record. Again, my great good fortune that every committee I am on decided to meet this Tuesday morning. I apologize.

Senator BUMPERS. I think it is the Moon. Everybody had four hearings at the same time this morning. Senator Harkin.

#### STATEMENT OF SENATOR HARKIN

Senator HARKIN. Thank you, Mr. Chairman. Just to follow up, Mr. Chairman, on your line of questioning on irradiated food. There has been a lot of debate. I think there are some groups out there that want to put the atomic radiation symbol that would attach to any foods that go out. Some of us have been fighting that by saying that the symbol is to warn people of radiation hazards that were present, whether it was on a reactor or whatever it might be.

The fact is, there is absolutely no radiation left in the food when it goes out. It makes no sense to have that kind of a symbol. Again, that has not been decided. There is no law that says it has to be on there. There are some groups that are pushing that I think in order to try to stem the move toward irradiated foods. I think we have been fairly successful in stemming that.

I think that one group that is headed by Jeremy Rifkin has been pushing that. I think we have been successful in showing that, that does not hold in this case. We have an experimental irradiator at Iowa State University and it has been working just fine. I really appreciate your following up on that with the Food and Drug Administration.

I think food irradiation holds a great deal of promise for us in terms of getting fresher fruits out, vegetables that have longer shelf lives, and things like that. It is really a great process. Dr. Plowman, just a few questions concerning the pig research facility. The Pig Research Center is scheduled to be ready for construction at the end of fiscal year 1994. Is that correct?



## PIG RESEARCH CENTER

Dr. PLOWMAN. Yes; we will have the predesign work done so that we could begin construction if the funds were forthcoming. Construction could begin at the end of 1994.

Senator HARKIN. The National Pork Producers tell me that this facility can have a tremendous impact on the whole industry, considerable savings are possible, and the cost of producing hogs, and developing animals pound-for-pound will have a higher value in developing new products from hogs. Dr. Plowman, what is your assessment of the Pig Research Center as a tool to improve the productivity of pork producers and to improve their income?

Dr. PLOWMAN. We certainly echo those comments of the pork producers. We are lacking technology that this center is designed to answer that will help make the pork industry more efficient.

## NECROPSY INCINERATOR

Senator HARKIN. Construction funds for the necropsy incinerator at the National Animal Disease Laboratory in Ames was included in the President's stimulus package. That stimulus package went up in smoke, not in that incinerator. [Laughter.]

Can you tell the committee why this facility needs to be constructed as soon as possible? What is the need for that?

Dr. PLOWMAN. Yes; I would say that is one of the very highest needs that ARS has for a construction item. The laboratory is dealing with animal diseases and it is necessary, as a byproduct of the research, that most of the animals that we deal with go through that incinerator so that there is no hazard to the community or to the animal industry in the State.

The present incinerator does not meet Federal or State guidelines for safety. It is absolutely essential. We have to bring that facility up to speed or shut down the center. That would be terrible. It is an extremely high priority item for us.

## NEW PRODUCT RESEARCH

Senator HARKIN. That is what I had been told. I just wanted to get that on the record. Hopefully, we can move ahead on that as soon as possible. As you know, I have been for a long time a supporter of increasing the portion of the research budget that goes to new product research, particularly toward the production of nonfood products.

I understand that definitions can be subjective in this area. Can you provide the committee with the percentages of the ARS and the CSRS operating budgets that are expected to be devoted to new product research in fiscal year 1994? How does that compare to the figure for, let us say, 2 or 3 years ago? Again, you may have to supply that for the record. If you do, I will just wait.

Dr. PLOWMAN. Yes; I will supply that for the record and then we will be very precise about it.

Senator HARKIN. Again, I know some of these are subjective. I understand that. I would like to get some handle on that and compare it to some previous years for me. Go back 3 or 4 years, something like that, and compare it for me.

[The information follows:]



AGRICULTURAL RESEARCH SERVICE/COOPERATIVE STATE RESEARCH SERVICE  
COMPARISON OF FUNDING FOR NEW USES RESEARCH TO TOTAL RESEARCH

[Dollar amounts in thousands]

	1992		1993		1994	
	ARS	CSRS	ARS	CSRS	ARS	CSRS
Food, new uses research .....	\$29,667	\$11,453	\$34,790	\$10,928	\$38,090	\$12,474
Nonfood, new uses research .....	\$36,252	\$10,139	\$39,034	\$10,168	\$40,034	\$12,989
Total, new uses .....	\$65,919	\$21,592	\$73,824	\$21,096	\$78,124	\$25,463
Total appropriation .....	\$660,879	\$418,361	\$660,879	\$418,642	\$667,668	\$416,452
Percent of food, new uses research .....	4.5	2.7	5.3	2.6	5.7	3.0
Percent of nonfood, new uses research to total research .....	5.5	2.4	5.9	2.4	6.0	3.1
Percent of total new uses research to total research .....	10.0	5.2	11.2	5.0	11.7	6.1

NOTE.—Total research does not include funds for teaching portions of Higher Education Programs or Buildings and Facilities.

Dr. PLOWMAN. I would say that is another important area for us. We have been attempting to reprogram and put more resources into that subject.

#### MANUFACTURING SYSTEMS RESEARCH

Senator HARKIN. One more question on that and then I am going to get to Mr. Andreas and AARC because that is precisely what they are doing. One of the projects, Dr. Plowman, that I am really proud of is the Iowa Biotechnology Consortium. It helps agricultural processors find ways to reduce the burden of their waste stream on sewer systems.

This reduces cost and environmental difficulties at the same time. Sometimes we are able to take the waste stream and turn it into sellable products. I was pleased to show President Clinton, who was then candidate Clinton, one of the projects last year at Cedar Rapids at the Quaker Oats Plant. It was quite a project.

Manufacturing systems research, which might lower manufacturers' cost of production, can be crucial in our efforts to make new nonfood agricultural products more competitive. Do you believe it would be appropriate to devote increased research resources to manufacturing systems research designed to lower production costs in the future?

Let me go over that one more time, Dr. Plowman. Would it be appropriate to devote increased research resources to manufacturing systems research such as those designed to reduce the waste stream, which is at cost to manufacturers, in order to lower production costs in the future?

Dr. PLOWMAN. Speaking just from an industry standpoint, one of the most expensive areas we have to deal with are these waste streams.

Senator HARKIN. Right.

Dr. PLOWMAN. Any technology that can be developed to lower the cost of cutting those waste streams and getting the water back into a form where we can give it back to the river or the lake as we got it, would be highly beneficial.

Senator HARKIN. Dr. Plowman, how much of this do you think would be done by your shop; increased research funds on manufacturing systems research? I guess that is the proper phrase; manufacturing systems research.

Dr. PLOWMAN. We are doing some things. We are looking at chemical modification and conversion of agricultural byproducts such as soybean hulls, defatted rice bran, and sugar beet pulp into materials that can be used to clean up waste streams in a timely fashion. Another systems approach is to modify the process to reduce the volume of waste produced. I think this is a partnership activity. We do some of the basic development work. Then, I think it is quite appropriate for the AARC Board to bring it to commercialization. I think a partnership could be developed there very nicely.

Senator HARKIN. I see both here. The AARC is both for research and commercialization. Obviously, there are some things I think that AARC can do in this area, but there are also some basic research that needs to be done. It can be done in your shop.

Mr. ANDREAS. That is correct. I think that is the kind of partnership we are talking about. ARS would do the basic research and AARC would bring it into commercialization.

Senator HARKIN. I would be interested to see some either memorandums of understanding or some coordination between ARS, CSRS, and AARC on this very topic on how you are going to coordinate and do this kind of research in reducing production costs, especially in reducing waste stream products. If you could work that out in the next few months, I would like to see how you are going to set that up and how you are going to focus on that.

Dr. PLOWMAN. We can explore opportunities for collaboration in this area.

Senator HARKIN. I would appreciate that. Last, Mr. Chairman, I am sorry I got here a little late. Like everyone else, I have other committee meetings and stuff. I wanted to be here for AARC's demonstration. I remember I mentioned this to you. When they were up before the Agriculture Authorizing Committee a few weeks ago, this center is now in its final grant negotiation I guess with about 20 entities, mainly businesses.

The funding history was in 1992, \$4.5 million; 1993, \$7.25 million; and 1994, a \$20 million request. I think you have seen here some of the exciting things that are going on. When I first saw that oil mixed with water, I could not believe it. Just do not tell me your next step is water into wine. I do not want to hear about it. [Laughter.]

The implications for the use of this in our freshwater lakes in the United States where they are already restricting outboard motors because of dumping all of the oil in the water, the implications of this, I think, are incredible. You saw the NewStone and some of the other things you are doing with ethanol. Maybe you have some new stuff there that I have not even seen like the windshield washer solvents.

To me, this represents the exciting cutting edge of finding new nonfood uses for agricultural products. Things that are environmentally benign. Things that will not hurt the environment and things that I think can be very competitive. If given the proper

boost in the beginning, some funds to help them do some of their research, demonstration, and commercialization, you can get them going.

I think this can be a way for many farmers to make a lot of money in the future. I know the chairman covered with you, Mr. Andreas, the process to maximize returns to the revolving fund and how you are going about that. I think this again is going to be a kind of a forerunner maybe of things to come where we have entities that will loan money out, take an equity position, convertible debentures, whatever it might be or direct payment back, and actually make money back for the Government while at the same time promote some of these new businesses.

I encourage you. I congratulate you for what you have done in the short span of time that you have been operating. I only have a couple of real questions. What percent of the applicants for funding were you able to start negotiating possible funding with your current round of negotiations? In other words, of all of the applicants that came to you for funding, what percent were you able to actually start funding processes with?

Dr. O'Connell.

Dr. O'CONNELL. Just about 5 or 6 percent.

Senator HARKIN. About 5 or 6 percent?

Dr. O'CONNELL. Yes; we had 407 preproposals. We could only fund about 20 projects, so that is 5 percent.

Senator HARKIN. Out of the 400, was there any process to deem which one of those were really kind of worthwhile?

Dr. O'CONNELL. Yes; initially, we took the 407 preproposals and we had three reviewers review each one plus a staff review. We had a technical reviewer, a business reviewer, and another reviewer depending on the nature of the project. We went through all of those and determined which ones met our criteria that was in the Federal Register announcement. We estimate about one-half of those had merit that should have gone further if we had the money.

Senator HARKIN. So about 200?

Dr. O'CONNELL. Yes; about 200. The total request for funds was \$175 million. The contribution by the people that were requesting funds was \$270 million. The total between that came up to around \$440 million. One-half of that \$175 million had projects of merit; so about \$90 million. We would have generated funds from the partners had we gone into all of them for about two times that.

Senator HARKIN. I guess what I am trying to get at, of those that were deemed worthy of investigation or support, it sounds like you were able to fund about 10 percent.

Dr. O'CONNELL. Yes; that is correct.

Senator HARKIN. If you were able to get the \$20 million for next year, do you have any idea what kind of waves are following this? Would some of those for example that you were not able to fund this year still be hot enough items to be funded next year?

Dr. O'CONNELL. Yes.

Mr. ANDREAS. I would like to make a point there that some of the good projects that came to us were a little premature. We told them, please come back to us next year. You have got good projects,



you are just not quite ready. We would like to consider funding you next year.

Dr. O'CONNELL. Senator, this is a new area. A lot of people were not familiar with this. Some of the good ideas came from universities, ARS scientists, or other folks, and what we encouraged them to do the next time is to match-up with a private sector partner. We will be setting up regional centers that will encourage that to happen.

By matching up with a private sector partner, then they can come in. We want to work with a private partner because they are the ones who are going to put the product on the market. We want them out front. We want the private partner out front.

#### PROMOTION OF AARC CENTER

Senator HARKIN. What is being done to really promote your activities and to get the word out to people or is it getting out there? I have talked to people about the AARC Center and nobody has heard of it yet. It is such a small entity; \$7.25 million. What is being done to get this word out?

Mr. ANDREAS. I would say this. I agree with you. The majority of people have not heard of the AARC Center yet. We had to make a decision to run with the ball, get the request for preproposals out, get them in and evaluate them, and do the work quickly. We decided that we would do that first and try to get the publicity that we could along the way.

We have been on a dead run to do that. We are now just about to put all of these 20 projects to bed. Maybe we will have a chance to get our head above water. I would like to think and hope that the USDA and other agencies have a way that we can help get this knowledge out. The people I talked to think this is wonderful to try to find new ways to use our agricultural products and cut surpluses. We do need help along those lines and any suggestions would be most appreciated.

Senator HARKIN. Likewise, if you have some suggestions for us, I would like to know that too.

Dr. O'CONNELL. There is a group called the New Users Council. It is made up of commodity groups like the corn growers and the soybean growers. Companies like ADM and Cargill are now getting involved. The State Commissioners of Agriculture in a number of States are in this council.

They recently set up an executive director. That is one of their key functions. It is to get this whole area of new uses on the agenda. Make people aware of it and the AARC Center. The New Uses Council is an advocacy group out in the community that is coming along and starting to get up and operating. Maybe Marty can comment on that.

Mr. ANDREAS. I think the New Uses Council is really kind of more the commercial side and the grower side of this issue. They see it as their vehicle for the future. They are giving it through their publications quite a bit of publicity. I think there are ways that maybe the New Uses Council can work with various agencies and we can escalate the visibility.



## REGIONAL CENTERS

Senator HARKIN. Last, Mr. Andreas, the legislation calls for the establishment of some regional centers. I know you are looking at them. Can you tell us what the prospects are? How soon are you going to be looking these over?

Mr. ANDREAS. I would like to defer to Paul, but I would say before we start that these regional centers, if you think the AARC Center has not gotten some attention, you ought to take the telephone calls that Paul and Joe get on where are we going to establish these regional centers.

Senator HARKIN. I will bet.

Mr. ANDREAS. With that opening, Paul.

Senator HARKIN. Did you get my phone call? [Laughter.]

Dr. O'CONNELL. The Board will be meeting on the 19th of this month. We had requests for proposals that we sent out in December of last year. We gave people a chance to put in proposals for a center. We got 14 in. We are reviewing those right now. At the last meeting the Board discussed this. We made some preliminary decisions on this. We will be making final decisions on the first two regional centers at this next Board meeting. Most likely, we will kind of lay out the geographic boundaries for the others at this coming Board meeting.

Actually, in the last appropriations language, it indicated that we should initially establish two regional centers. Next year, we will probably get into the others. The only way you can cover the country is to have six centers as provided for in the authorizing legislation. Initially, we will be looking at two. At the next Board meeting, we will be making some decisions on that.

Senator HARKIN. Thank you very much. Mr. Chairman, I just think that what the AARC Center is doing, I really have to say for the record, I think is the cutting edge of what we ought to be doing in agriculture. I know budgets are tight and everything like that, but here is someplace where I think we can engender new products, new product development, give a better return to farmers. The Government gets a position in it. I think the taxpayers are not going to lose any money on this whatsoever.

We have had experience in this before. We set up the legislation, obviously, this was my bill back in the 1980's. Back in the 1970's when I was in the House on the Science and Technology Committee, we had NASA. They were doing some engine development work with some of the private companies. They did the same thing. That is where I got the idea for it. They put money into these engine developments. These new quiet jet engines, when Pratt & Whitney started selling those, they paid the Government back. We actually made some money on it. I think this same thing can hold here also.

## FUNDING AGREEMENTS

Senator BUMPERS. Is there a limit on how much money you give for any one grant? Are you limited by law in any way? What is the biggest grant you have made so far?

Dr. O'CONNELL. \$1 million.

Senator HARKIN. Is that a grant?

Dr. O'CONNELL. No; it is a cooperative agreement.

Senator BUMPERS. You keep calling them grants.

Senator HARKIN. They have corrected me twice already. Did you get an equity position in that?

Dr. O'CONNELL. It can be equity, percent of sales, or some kind of a payback arrangement. We also get interest. The interest is above what the Federal Government pays for the money.

Senator HARKIN. Exactly.

Dr. O'CONNELL. It is not below.

Senator HARKIN. Exactly. Thank you, Mr. Chairman.

Senator BUMPERS. Thank you. Senator Kohl.

#### SUSTAINABLE AGRICULTURE

Senator KOHL. Thank you very much, Mr. Chairman. Dr. Jordan, first of all, I would like to commend the administration for setting up a budget which for the first time does not ask for a cut in the amount that Congress appropriated for the Sustainable Agriculture Research and Education Program.

This is certainly a step in the right direction. I would like to see us move even further and provide significant increases for this program. As I am sure you know, many people believe that sustainable agriculture is a rare jewel in agricultural research. It is farmer initiated, farmer driven, and farmer implemented.

Farmers themselves are in the forefront of experimenting with farm systems that protect natural resources, reduce pollution, and enhance profitability. In this day of increasing concern about nonsource pollution, the efforts of these innovative farmers certainly should be encouraged and publicized.

Dr. Jordan, I noticed that all of the major increases in this CSRS budget for research are for the National Research Initiative. Given the tight budget situation, I wonder whether we might want to establish stronger links between the NRI and applied research programs like sustainable agriculture, biological pest management, and water quality.

There is a requirement. As you know, 20-percent of NRI funds are to be used for mission-linked research. What I am wondering is whether or not the SARE Program and a few others should function as the applied part of the NRI. This could help focus the basic research agenda on practical applications to help solve human and natural resource related problems. Dr. Jordan, would you like to comment on this idea? Also, can you tell us if there is currently any coordination between the SARE and the NRI programs?

Dr. JORDAN. Senator, you have identified one of the real success stories. In fact, perhaps some of you have seen the Sustainable Agriculture Research and Education [SARE] Report that has been published in the New Farm Magazine. It broadly describes what has been done. We have a close working relationship now among the programs, not only within CSRS, but also with respect to the Agricultural Research Service and the SARE Program.

In fact, a protocol has been devised that allows us to go through project by project and examine the amount of programs in each area that are mainline and those that are relevant to the issue of sustainable agriculture. As it all turns out, Senator, you have brought a very good point to the focus. Namely, the SARE Program

is really a core around which the remainder of the Department's sustainable agriculture programs have gathered in a sense. Within the Cooperative State Research Service, the amount of research in NRI alone that is directly relevant to sustainable agriculture was about \$10.6 million in fiscal year 1992. Our estimate is that for fiscal year 1994's budget, that will increase to about \$13 million.

If you will take the CSRS budget as a whole, Senator, about \$90 million of it is in areas relevant to sustainable agriculture which we have already accounted for almost \$7 million in the SARE Program, and over \$10 million in NRI, and most of the remainder of it is in the Hatch, McIntire-Stennis, and Evans-Allen Programs.

I will tell you too that what we have effected is an agreement between the two programs, NRI and the Sustainable Agriculture Research and Education Program for the development of a specific protocol to review every NRI project in terms of its relevance to sustainable agriculture.

Incidentally, parallel protocols have been put into motion at the Agricultural Research Service. They are something in the vicinity of \$120 million of relevant kinds of things. Some of that is mainline as well. We are not doing it in a vacuum. It is having an enormous effect. SARE though is the core. The reason it is, is because it is organized on a regional basis.

SARE really is that part of the program which is very close to application. Therefore, it constitutes demonstration for the farmers and ranchers. Each of the four regions that have a program and they have on their planning and coordinating groups farmers, ranchers, agribusiness people, investors, as well as scientists from the Federal laboratories, and from the universities.

When all put together, it is really one of the things that is helping us translate basic research into reality in so far as it is used by the farmers and ranchers in America. In effect, in six of nine key studies in the Northern Plains and Rockies, we found a complete elimination of off farm agrichemicals in the process.

There are a number of projects in that arena that are very, very impacting. Your point is well taken. I think we are already at that point and are doing it within the Department of Agriculture now. You hook this to the Extension's involvement, and we do not do anything in SARE without the Extension system along with us. Their proposal, of course, for funding increases in this important area for fiscal year 1994 is important to us too.

#### UNIVERSITY OF WISCONSIN-STEVENS POINT FACILITY

Senator KOHL. I appreciate that. That is a good answer. Dr. Jordan, I would like to ask you about the College of Natural Resources at the University of Wisconsin's Stevens Point which received \$86,000 through the CSRS buildings and facilities account for fiscal year 1993.

Dr. Jordan, it is my understanding that a team of CSRS officials visited the facility to evaluate their program in developing a feasibility study. It is also my understanding that the team produced a very favorable report of the program and the facility. I believe that is correct.

Dr. JORDAN. That is correct.



## CSRS BUILDINGS AND FACILITIES

Senator KOHL. On that issue, I have noticed in the budget that the CSRS buildings and facilities account has been zeroed out while the buildings and facilities account for ARS and other agencies are continued, albeit at lower levels. I understand the need to reduce the deficit. We all understand that.

I do not understand why some buildings and facilities accounts have been completely eliminated from the budget while others are still continued even at lower levels. Would it make more sense to disburse the reduction more evenly across all buildings and facilities accounts?

Dr. JORDAN. Senator, I think the issue is probably one of whether we have a basis for decisionmaking in the fiscal year. For fiscal year 1992, the Office of Management and Budget, through the President's executive budget, sent up a proposal for a competitive program of \$25 million in facilities. It was not particularly well received here in the Congress.

It may be time, Senator, to readdress that and ask the question, How shall we both on the executive side and the legislative side decide where these resources ought to go and what kind of a basis would we use for it? I think the time has come, Senator. I suspect that you will find us more than willing to sit down and talk about this. I would not say though that what we have put in on the ARS side is other than what is critically needed. I would not say that sharing that piece is desirable at all.

Senator KOHL. You would not say that?

Dr. JORDAN. No, sir.

Senator KOHL. I asked whether or not we might disburse the reduction more evenly across all buildings and facilities accounts, you agree with that? You do not agree with that?

Dr. JORDAN. I think that is correct. I do not agree. I think what we have put up in other buildings and facilities account is critically needed. This one, of course, is zeroed out. We do need buildings. Do not misunderstand me, Senator. We do need them. I think the question is, How shall we go about deciding where it ought to be invested?

Senator KOHL. I would like to ask Dr. Johnsrud a question. Dr. Johnsrud, I am very pleased to see that \$3 million has been proposed in the administration's budget proposal for implementation of the Sustainable Agriculture Extension Program authorized in chapter 3, of subtitle B of the research and extension title of the 1990 farm bill.

There is strong support for both the training and outreach aspects of other sustainable agriculture technology development and programs in my State of Wisconsin. It is not clear to me, however, how a national training program with activities in each of the four extension regions can be started with just \$3 million. While I suppose we could limit the program to just one or two regions, it would surely gather wider congressional support if we could start in each of the four regions. I hope that we might find some additional dollars, however small, to make that possible.

The SARE Program has been an excellent model of how Government can better respond to the needs and learn from the expertise



of farmers. I ask you, will the Sustainable Agriculture Technology Development and Transfer Program continue this emphasis on farmer participation? It is my understanding that the department has developed draft guidelines to implement this program. I ask, when will they be complete and available for this subcommittee to review? Do they envision making use of the existing regional administrative apparatus of the SARE Program?

Dr. JOHNSRUD. Senator, there are several questions in your one question. I will try to take them in order. Currently, in the area of sustainable agriculture, the Extension System is devoting considerable resources to training. Our best data indicates that it would be in the neighborhood of \$15 million is being spent on training staff and others on sustainable systems that are now coming out of the research area.

Second, certainly there is a need for more resources because it is a major, major challenge ahead to provide the training. We certainly recognize that. Whether it needs four centers, six, or two, the legislation says no less than two. Maybe it needs to be between four and six centers.

We are currently devoting across the system about 625 full-time equivalents or about \$53 million to the sustainable agriculture initiative as set forth in the legislation relating to chapters 1, 2, and 3 of sustainable agriculture. We are committed to sustainable agriculture. Any additional resources we are proposing will go to enhance that capacity to really reach out with the site-specific systems approach, directly to production agriculture across this country.

We are committed and we are committing resources and reallocating resources. In fact, of all of our national initiatives, sustainable agriculture is one of the two highest reallocation of resources toward an issue. We are feeling good about the shift we have made. We do need to infuse some more resources, and thus our request.

Senator KOHL. I do not recall hearing. Did you respond to my question about the guidelines? When will we be able to see them?

Dr. JOHNSRUD. The guidelines are in the first draft stage. In fact, I saw the first draft yesterday for the first time. These guidelines currently call for involvement of the public and private sector in the implementation of the program. Something we currently have in most of our projects across the country.

Senator KOHL. Good. I appreciate that very much. Senator Bumpers, thank you so much.

#### HUMAN NUTRITION

Senator BUMPERS. Thank you very much, Senator Kohl. We will not be much longer. Dr. Plowman, I am going to ask you, if you will, and I have a parochial interest in this. Are you familiar with the University of Arkansas' pediatric unit being interested in these nutrition programs, children's' nutrition research programs?

Dr. PLOWMAN. I would not say intimately knowledgeable, but I generally know what they are doing, yes.

Senator BUMPERS. We have five human nutrition research centers; do we not?

Dr. PLOWMAN. That is correct.

Senator BUMPERS. Could you just briefly describe where each one is, what they are doing, and how much money you are spending on them?

Dr. PLOWMAN. Yes; I would be pleased to do that. The first and oldest one that we have is located near here in Beltsville, MD. We have had that center almost since the Department was established. They have a role there in promoting health and reducing the risk of chronic disorders such as coronary heart disease, cancer, and noninsulin dependent diabetes.

They do work on the composition of foods, bioavailability of foods, energy metabolism, things of that nature. This year, we have about \$9.2 million supporting 36 scientists there. In Grand Forks, ND, their work is primarily concerned with trace elements.

Senator BUMPERS. We are getting down to why I am asking this question. I know why that is at Grand Forks, ND, but I am chairman of this committee now. [Laughter.]

Dr. PLOWMAN. Right.

Senator BUMPERS. Please proceed. [Laughter.]

Dr. PLOWMAN. Grand Forks works on trace minerals, trace elements. Their budget is about \$8 million. The Human Nutrition Center at Tufts University is concerned with nutrition requirements for the elderly. The budget for that center is about \$14.6 million.

The Children's Nutrition Center at Baylor College of Medicine in Houston, TX, works on nutrient requirements of infants, children, and pregnant and lactating women. Their budget is about \$10.3 million. The final center is located at the Western Human Nutrition Center in San Francisco. They are working on methodology to develop methods of defining nutritional status. They have a budget of \$5.1 million. Those are the five centers that we now have.

Senator BUMPERS. I have been told that the Children's Nutrition Research Center in Houston is underfunded. Is that correct?

Dr. PLOWMAN. That is correct. We have a building, but it has not been possible for us to completely open all aspects up. For example, they have a metabolism unit there that has not been able to function.

Senator BUMPERS. Let me ask you, how do you rate the general efficacy of these child nutrition centers? My concern is that it really is genuine because of the Delta Commission which touched on this in their report 3 or 4 years ago, but I am concerned about rural children. I am concerned about this whole area of nutrition research for children. How do you evaluate the success of this program?

Dr. PLOWMAN. I think with the amount of resources and effort we have, it has been very successful.

Senator BUMPERS. Can you, just as AARC has done here, for example, can you point to very tangible results from their research that these nutrition centers have done that has actually manifested itself in better health for our children?

Dr. PLOWMAN. Yes; and I would like to provide that for the record.

Senator BUMPERS. I would like for you to do that.

Dr. PLOWMAN. We could name some very significant things that have come out of each of the centers, recognizing that several of

them are relatively new, but already some very significant accomplishments. The last two centers, the one in Houston and the one at Tufts, have made some major contributions.

However, I would say that we could spend twice as much money on human nutrition as we are now spending. We know a lot less about feeding people than we do cows. It is just a science.

Senator BUMPERS. I am going to remember that for my next speech.

Dr. PLOWMAN. It is true. You can take any farm livestock and we can tell you what to feed it to take care of its nutrient needs for production. We cannot do that for humans. We know much less about humans.

Senator BUMPERS. Dr. Plowman, that is a really interesting observation and serious indictment of our commitment on nutrition. I have always believed, for example, that cancer, I think it is both genetic and environmental.

Dr. PLOWMAN. That is true.

Senator BUMPERS. The proof just continues to accumulate that, that is correct. That is just a layman's view, but of course obviously scientists reached that conclusion a long time ago. We can avoid so much in the way of poor health in this country with better nutritional habits. Nutrition research is a serious matter. That statement you just made is a serious indictment of our lack of commitment to it.

[The information follows:]

#### RECENT ACCOMPLISHMENTS

Examples of accomplishments aimed at improving the health of our children which are performed at USDA's Children's Nutrition Research Center at Baylor College of Medicine, Houston, Texas are as follows:

*Strategy that promotes weight gain in low birth weight infants.*—Low birth weight infants fed their mothers' milk often gain weight at a lower rate after birth than the rate of gain in utero. The lipid content of hindmilk is 2 to 3 times greater than that of foremilk. When infants were fed their mothers' milk fortified with lipid content to match the hindmilk fraction, their weight increased significantly.

*Nutrition in the neurologically impaired child.*—Protein-energy malnutrition, linear growth failure, and obesity are the most common nutritional disorders founds in neurologically impaired children. The nutritional disorders may be caused by altered nutrient intakes, metabolic or hormonal processes, or nutrient expenditures or losses. Tube feedings (enteral) are appropriate to provide primary nutritional support for children who cannot be fed orally. The prevention of malnutrition, growth failure, and obesity in the neurologically impaired child is possible by monitoring appropriate growth, anthropometric, and laboratory indices, and promptly instituting enteral nutritional rehabilitation when indicated.

*Abnormalities of mineral balance and bone formation in adolescents with anorexia nervosa.*—Severe bone loss accompanies anorexia nervosa in adolescents. We assessed calcium metabolism in adolescent girls with anorexia nervosa. Results suggest marked abnormalities in mineral metabolism in subjects. Improvement in bone mineralization during recovery from anorexia nervosa may require resolution of hormonal abnormalities in addition to increased calcium intake.

*Better bone growth in very low birth weight infants with calcium and phosphorus added to formula.*—When very low birth weight infants who are tube-fed do not retain sufficient calcium and phosphorus, they may develop bone disease. Twenty-four very low birth weight infants received solutions that contained either standard quantities of calcium and phosphorus or greater than standard quantities. Bone growth improves and the likelihood of bone disease decreases when formulas contain more than the standard quantities of calcium and phosphorus.

*The energy cost of milk production of lactating women.*—To determine how much energy is used for milk synthesis, measurements were made of the differences in metabolic rates between women whose breasts were full of milk and those whose breasts had been emptied. Results showed that human milk production is approxi-



mately 90 percent energetically efficient. The amount of energy used for milk production is primarily limited to the amount of energy in the milk. The energetic efficiency with which women produce milk improves the longer lactation is sustained.

The following lists examples of recent accomplishments from other USDA Human Nutrition Centers as reflected in the 1994 Explanatory Notes.

#### BELTSVILLE HUMAN NUTRITION RESEARCH CENTER, BELTSVILLE, MD

*A nationwide study of selenium in beef products.*—Selenium is known to be an essential dietary nutrient, and beef is a major selenium source for the United States population. Therefore, it is important to know the variability of selenium in beef produced and sold throughout the Nation. Scientists have measured the selenium content of more than 200 samples of retail beef cuts gathered from diverse markets. Analyses showed the mean selenium concentration in various beef cuts were 13 to 20 micrograms per 3 oz. serving; that provides about one third of the daily recommended intake for an adult.

*Table developed to show the carotenoid content of fruits and vegetables.*—Carotenoids are substances found in foods—especially, fruits and vegetables—which may reduce the risk of certain cancers. To learn more about the role of carotenoids in the prevention of disease, researchers need to know the amount of carotenoids found in commonly eaten foods. Scientists have developed a table, using an artificial intelligence system to evaluate the quality of existing data for food carotenoid levels. Those values judged to be acceptable were combined to create a table which contains the minimum, maximum, and median levels of beta-carotene, alpha-carotene, lutein, lycopene, and beta-cryptoxanthin in more than 120 foods. This data base of food carotenoid contents should be highly useful in the estimation of dietary amounts of specific carotenoids.

#### GRAND FORKS HUMAN NUTRITION RESEARCH CENTER, GRAND FORKS, ND

*Dietary calcium and manganese affect menstrual cycle symptomatology.*—The menstrual cycle has been associated with changes in female physiology and behavior. Researchers have attempted to determine if calcium and manganese in the diet might influence the symptoms associated with menstrual distress. Scientists found that adding calcium to the diet resulted in reports of improved mood states, fewer undesirable behaviors, and better mental concentration during all three phases of the menstrual cycle. Adding manganese to the diet only improved status when additional calcium was also fed. These findings suggest that moderate increases in dietary calcium and manganese may be helpful in the management of symptoms associated with menstrual distress.

#### HUMAN NUTRITION CENTER ON AGING AT TUFTS UNIVERSITY, BOSTON, MA

*Age-related cataract, vitamin B6, folate and taurine.*—Cataracts are responsible for over 50 percent of all blindness. Recent epidemiological studies have provided encouraging evidence that nutrition may play an important role in preventing cataracts. Researchers found that individuals with cataract had lower intakes of folate and vitamin B6 than persons of comparable ages without cataract. Low folate and vitamin B6 intakes lead to elevated levels of homocysteine, which is believed to promote tissue damage; vitamin B6 is necessary for the production of taurine, which is found in the human lens in high concentrations and is believed to protect tissues against toxic insult. Results indicate possible roles for folate, vitamin B6 and taurine in preventing cataract formation and imply a dietary function in delaying the process.

*Vitamin C intake and blood pressure in the elderly.*—Elevated blood pressure (BP) is a powerful determinant of cerebrovascular and coronary heart disease. The importance of nutrition in the control of blood pressure is well documented, with obesity, dietary sodium, and alcohol being associated with higher BP, and increased intakes of potassium and calcium associated with lower BP. Since inverse associations between BP and vitamin C have also been reported, scientists undertook an analysis of data from a large cross-sectional study of health and nutrition in a group of noninstitutionalized elderly subjects. They found half as many cases of elevated BP in subjects consuming 240 milligrams or more per day of vitamin C than they did in those consuming less than 60 milligrams per day. This finding lends support to the hypothesis that diets low in vitamin C are related to increased BP. However, further research is required to test whether the vitamin C itself—or some other component of a low vitamin C diet—is responsible for the elevated BP.



*Effects of n-6 polyunsaturated fatty acids on immune status.*—Health organizations have recommended a reduction in the concentration of total calories from fat and an increase in the percent of calories from n-6 polyunsaturated fatty acids (PUFA) to improve cardiovascular health. However, diets rich in n-6 PUFA have been reported to suppress immune status in animal models, and the effects of such dietary changes upon human immune status are not well known. Scientists examined the effect of lowering dietary fat content while adding two levels of PUFA (3.1 or 9.1 energy percent) upon the immune status of seven healthy women. Lowering the fat content of the diet enhanced several indices of the immune status, although there was no difference in the values of those based upon the PUFA content of the diets. Results indicate that a reduction in the intake of total fat, with a moderate increase in the percent of n-6 PUFA, may be beneficial not only for cardiovascular health, but also for improving immuno-competence.

*Low-carotenoid diets quickly reduce plasma carotenoid levels.*—The human body uses carotenoids (colored substances found in fruits and vegetables) as part of its defense system to protect cells and tissues from the damaging by-products of oxygen utilization. Until recently, the effect of a low-carotenoid diet on depletion of specific carotenoid levels in the blood had not been known. Scientists have completed a 3-month study during which healthy men were fed a diet containing no fruits or vegetables. A lack of fruits and vegetables in the diet will quickly lower blood levels of both important carotenoids and vitamin C, thus lowering antioxidant protection.

#### YOUTH AT RISK PROGRAM

Senator BUMPERS. Dr. Johnsrud, let me ask you a question about the Youth at Risk Program. What is that and how does it work?

Dr. JOHNSRUD. Senator, the Youth at Risk Program has been doing extremely well. We have just completed and received the preliminary results from an external assessment of the program. Their early findings are that the program has done several things.

One, it is truly reaching the lives of young people and their parents that are on the edge of probably going in the wrong direction. Second, we have enjoyed a tremendous support from the private sector in real dollars. The private sector has stepped forward and put in more dollars than we have in public funds. Third, we have had an excellent cooperation from local, city, county agencies, and other public agencies in helping reach the young people, currently at 96 sites.

What we are doing is, as the project reaches the fifth year of operation, the sites are expected to pick up more and more of the funding so that they will have that local commitment. That is now in that beginning phase. Based on our observations, and the third-party assessment, we think it is going very, very well.

Senator BUMPERS. You have another program dealing with assistance to disabled farmers and farm-related occupations; apparently, in trying to help them along with the Easter Seal Society become productive again on the farm. Is that correct?

Dr. JOHNSRUD. Yes, sir; it is a partnership. Basically, we know where these farmers are and they are comfortable approaching us to make some adjustments because of an injury or disability. The Easter Seals Society has the capacity to design some of that retrofit. Between our organization and the Easter Seals Society, that is exactly what we have done. That is oversimplifying it, because sometimes it even means modifying the farm operation.

For example, maybe the farmer cannot continue in dairy and need to switch to something else. The organization will look at alternative enterprises for that farm. I have personally interacted with some of those farmers. It is a heart warming experience to

work with these folks as they have made adjustments in their physical ability in order to continue their farming operations.

Senator BUMPERS. Dr. Johnsrud, I am the author of the so-called Micro-loan Program in the Small Business Administration where people can borrow who have a good idea and not a prayer for a bankable loan, can borrow anywhere from \$1,000 to \$25,000. It is the kind of loans banks just do not make anymore. The whole object of that is that small really can be beautiful sometimes. Some of these people are doing extremely well. Some of them are getting off welfare and so on with small loans because they are energetic, have an idea, and they are willing to work. Small, as I say, is oftentimes highly beneficial to all of us. In this particular program, it seems to me that \$1,750,000 is just nothing compared to the magnitude of the problem you are trying to address. How do you allocate your money?

Dr. JOHNSRUD. The challenge out there is bigger than the resources in terms of the money within our Federal appropriation. The thing that comes into play is there are also other State, public, and private resources going into the program. It reaches an amazing number of people with the dollars. I think it has been very cost efficient. It truly has touched the lives of several hundred people in a very meaningful way.

Senator BUMPERS. Dr. Plowman, in 1993, you or Dr. Jordan, either one, we put a provision in there that indirect costs on competitively awarded grants could not exceed 14 percent. Are you familiar with that?

Dr. JORDAN. Yes, sir.

Senator BUMPERS. You just got elected to answer the question then. How is that working? Has it resulted in any reduction in application, the number of people who are interested?

Dr. JORDAN. There are a few universities that will not submit proposals to the NRI because of that. They are relatively few. There are more in the Small Business Innovative Research Program. Institutions and small businesses that submit to that program in some instances cannot make it on that kind of overhead. We have had several that, even though they have been selected for funding, have not accepted them because of that.

I will say that by and large though, it has not had an enormously deleterious effect. It may be at the bottom end of what is needed in terms of indirect costs. It certainly shows the other extreme is probably not legitimate either; namely, covering all of the indirect costs.

Senator BUMPERS. How about special research grants? Do you have any kind of indirect cost limitation on those?

Dr. JORDAN. The only ones that we allow any indirect costs, and that is 14 percent also, Senator—

Senator BUMPERS. You do that on the special research grants too?

Dr. JORDAN. Only those that are awarded on a competitive basis. Those that are identified for specific institutions already identified by the Congress are not allowed to take any indirect costs at all. That is called partnership from our point of view, Senator.

## RICE GERmplasm CENTER

Senator BUMPERS. Dr. Plowman, how is our Rice Germplasm Center in Stuttgart going?

Dr. PLOWMAN. It is going very well. We are right on target with design of building and so on. We are looking there at about a \$10 million research facility. Our plans are well underway.

Senator BUMPERS. That is the right answer. [Laughter.]

I have a host of other questions here that I think it would probably be just as well to submit them in writing. Let me look quickly here to make sure there is not something I want to get into in detail.

[Pause.]

## RUSSIAN WHEAT APHID

Here is something that is new, Dr. Plowman. Russian wheat—is it aphid?

Dr. PLOWMAN. Aphid, that is correct.

Senator BUMPERS. Is that just like a spinach aphid? Is this a little bug?

Dr. PLOWMAN. It is a little green bug.

Senator BUMPERS. Is it the same one that you find underneath the leaves on greens like spinach?

Dr. PLOWMAN. It is just a different specie, but it is the same sort of thing.

Senator BUMPERS. When did we suffer an outbreak of the Russian wheat aphid?

Dr. PLOWMAN. It was about 6 or 7 years ago. Nobody knows quite from where. It was an insect that was introduced into this country that attacked wheat. It also attacks other grain crops like rice, barley, oats, and some grasses. This caused a great deal of economic damage in the country.

Senator BUMPERS. How pervasive is it in this country? How far has it spread?

Dr. PLOWMAN. It spread throughout the Great Plains in the Western States. It will start in the spring in the Southern Plains area. By the time fall arrives it will have spread through Colorado, Montana, Wyoming, Utah, and Idaho.

Senator BUMPERS. You say it is affecting rice?

Dr. PLOWMAN. I do not think it has been a major impact on rice.

Senator BUMPERS. What are you doing?

Dr. PLOWMAN. We are doing a whole lot of things with it. The longest reaching program that we have, of course, is to find some resistant varieties that it will not like and will not attack. We have screened our germplasm collections in both barley and wheat to find some resistant genes. We have located some resistant genes. Now, those have been identified and breeders are trying to incorporate these genes into commercial crops.

In addition to that, we have gone out and searched the world. The Russian wheat aphid is found in a lot of other countries, where it is not a problem. The reason it is not a problem is because there are a number of other parasites, predators, and pathogens in the ecosystem that keeps it in balance. What we have done is, we have gone to these other parts of the world where this insect occurs and



we have found some of these biocontrol agents that will work on it.

We have brought them here now. They have been through our quarantine procedures. We have some pilot tests out and releasing some new organisms into our environment to see how effective they might be in controlling the Russian wheat aphid. It is a good program. We think we are making good progress. It takes a long time to solve a problem like that.

Dr. JORDAN. Senator, there is a special grant that Congress has made available in the CSRS budget that involves also Washington State University, Oregon State, the University of Idaho, the University of California, and Colorado State University. Obviously, we are working in concert with the Agricultural Research Service on it.

There are resistant varieties of wheat that are going to be commercially available for the 1994 season. As Dr. Plowman has said, we have made enormous headway on this one in a relatively short time in all honesty.

Dr. PLOWMAN. I think it also emphasizes how important it is that we have this germplasm base that we can look at all of the time to attack these kinds of problems.

Senator BUMPERS. We are very proud that we are going to have that germplasm center down there. Of course, we expect great things from it. You know in the field of genetic research, what shall I say? Considering the progress that is being made in genetic research at all levels, it might not ought to be just rice. It ought to be every product. We ought to be mapping the gene of every product. It holds such tremendous productive potential and so on. I can tell you that the rice people in my State are really excited about this.

Dr. PLOWMAN. We are too. The whole science community is really excited about all of these possibilities. I will tell you that between ARS, the National Research Initiative, and CSRS, we have a very vigorous program of mapping the gene of all of these major crops. We have made some fantastic progress in the last few years. We have maps now that will display where genes are on the chromosomes of these crops.

If you look down the road, I think soon it will soon be possible to identify very specific genes that might have resistance to these insects or provide drought resistance, or have some quality characteristics. The science will be such that we will be able to pluck those out of the germplasm of one plant and put it in another one. That science is moving very rapidly and it is exciting.

Senator BUMPERS. You know, Dr. Plowman, this is a little statement. It does not cost you anything. The No. 1 problem in the world, politicians refuse to discuss. That is that population is out of control on this planet. The reason we had to go to Somalia is because Somalia will produce enough food to maybe sustain 1 million, but not 6 million. We go over there, feed them, pat ourselves on the back, and leave. Within 6 months, they will be starving again.

When I was born, the population of this country was 130 million. It has gone up 100-percent in my lifetime. Who in this audience thinks that Los Angeles or Miami, for example, is a better place



to live because they have twice as many people as they had 25 or 30 years ago?

I just got back from a trip. There are parts of Yugoslavia, Russia, and the more I travel, and the more I see such abject poverty, the more I realize just how important this burgeoning problem is. Now, in my lifetime, we have seen the plant of the Earth go up 150-percent and going to double again in the next 45 to 50 years.

I do not care how many genome projects we have, at some point, and I am just saying sort of the downside of this is, we produce more food and can feed people, and they continue to have more babies, and more people. Everybody knows that this is a ticking time bomb.

I can remember going to Mexico on a trip I won selling refrigerators in 1963. At that time, Mexico had 35 million people. I guess today, there is well over 100 million people living in Mexico. In the short 30-year timespan, they have gone up over 200-percent. I am telling you, that is a ticking time bomb. That is one of the reasons why this is important. It is also another reason why we ought to be giving a lot higher priority to birth control devices, particularly to Third World nations and trying to get it under control.

I dare say, I do not think this planet will sustain in perpetuity over 2 billion people. I heard a fellow say a couple of weeks ago, anybody who thinks you can have a finite existence with infinite resources is either a lunatic or an economist. [Laughter.]

You can talk about this all day long and you will not get any television cameras there to cover it. You know, of course, in your profession that what I am saying is absolutely true. This brings me to urban gardening, Dr. Johnsrud. [Laughter.]

How are you doing with that?

Dr. JOHNSRUD. That program is going well, Mr. Chairman. The program includes 800 acres of farmland in the 23 cities across this country. The people produce about 22 million dollars' worth of food. Again, when you get down in the city and talk to the retired CEO of a corporation that is serving as a volunteer, working with the Extension staff, and what it is doing for those young folks like it did in downtown Los Angeles recently, or have done in Philadelphia, or New York, it is a good program. It has become a part of some of the public school system programs. The kids at noon will go out and take care of their gardens and bring their lunch out there. It gets to be a laboratory.

Senator BUMPERS. Send this committee a small statement, will you, on what you think about the program, what your needs are and so on, what the downside of that is, and how it is maybe not working?

Dr. JOHNSRUD. We will do that, Mr. Chairman.

[The information follows:]

#### EXTENSION SERVICE, USDA URBAN GARDENING PROGRAM

The Extension Service (ES) USDA Urban Gardening Program (UGP) was initiated in 1977 in six cities when Congress appropriated \$1.5 million. In 1978 the program was expanded to 16 cities with total funding of \$3 million. In 1985 and 1986 the program was again expanded to 21 and 23 cities respectively. The program is now funded at \$3.557 million. Funding for individual cities within the program has not increased.

During the past several years, the UGP has returned to the participants about \$20 million per year. The estimates of value of production were started in 1981

using a formula derived from research at various institutions and validated by the National Gardening Association headquartered in Vermont.

Annually there have been about 3,000 volunteers helping deliver educational food production and utilization programs to the approximately 190,000 participants.

In 1991 and 1992 there were decreases in the number of volunteers and participants in the program. This resulted in less programs in several cities, with less food produced.

As with any other program, the Extension Service, USDA Urban Gardening Program has highlights and concerns. Looking at 1992 and prior years the program has:

*Highlights:*

- reached inner city low income persons
- returned about \$6 per federal dollar
- about two-thirds of participants are minorities
- about one-fourth of participants are young persons
- taught biology and agriculture to adults/youth
- enhanced the diet and nutrition of participants and their families
- provided more than \$100 in produce to each participant
- enhanced neighborhood communications by promoting sharing of experiences and produce
- enhanced neighborhood beautification
- saved local authorities money in cleaning and upkeep of empty lots
- received about \$1.5 million in donations from private and public agencies and groups annually
- decreased vandalism (the LA gardens were not affected even though they are in the zone where riots occurred in 1992)
- trained volunteers from the inner city

*Concerns:*

- decreased staff caused by shrinkage of funds
- decreased numbers of volunteers
- decreased numbers of participants
- decreased total estimated value of production
- continued perception that UGP is not a traditional agriculture program

The ES-USDA Urban Gardening Program has been a model for other urban gardening programs throughout the United States and other countries. The benefits associated with the program are mostly societal benefits which have not been extensively studied. However, the therapeutic value of gardening has been proven. The benefits to society due to better diet and nutrition of the participants and their families, the learning of basic biology and agriculture by youth, and the respect of other's property are important aspects of this program.

Senator BUMPERS. I saw something last night. I have been to Russia several times in my life. I was there last week. I saw something I have never seen before. They are allocating plots of land around these highway interchanges. There were people out there all over the place, just like ants, working a small, less than a quarter-acre plot of ground. They have got their own urban gardening system working. Of course, considering the plight of that country, that is to their credit that they are doing that.

#### SUBMITTED QUESTIONS

Thank you for your testimony. Additional questions will be submitted for written responses and we ask you to respond to them within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## AGRICULTURAL RESEARCH SERVICE

### QUESTIONS SUBMITTED BY SENATOR BUMPERS

#### ALTERNATIVE AGRICULTURAL PRODUCTS

Question. How much funding in 1993 and 1994 is for research on new nonfood, nonfeed alternative agricultural products?

Answer. The funding for research on new nonfood, nonfeed alternative agricultural products in fiscal years 1993 and 1994 is as follows:

<u>Nonfood-Nonfeed uses</u>	<u>FY 1993</u>	<u>FY 1994</u>
Traditional crops	\$23,135,650	\$26,435,650
New crops	<u>4,408,800</u>	<u>4,408,800</u>
TOTAL	\$27,544,450	\$30,844,450

Question. How much funding in 1993 and 1994 is for the promotion and commercialization of new nonfood, nonfeed alternative products?

Answer. ARS currently identifies \$10,420,000 as near term or commercialization research on new uses and new products.

#### SUSTAINABLE AGRICULTURE

Question: What amount of funds are being used for sustainable agriculture research in 1993 and what is proposed for 1994? Give some specific examples.

Answer: As you know, ARS in cooperation with CSRS established a new protocol to estimate the contribution of ongoing research to sustainable agriculture. Applying that new protocol to currently active projects, we determined that research projects funded in FY 1993 totaling \$166,975,000 may contribute significantly to sustainability. We do not anticipate significant changes in this amount in 1994.

Some examples of projects related highly to sustainable agriculture are as follows:

- o Management of legume/grass mixtures to maximize pasture persistence and productivity - University Park, Pennsylvania -- \$301,676

- o Low input forage production systems for marginally productive soils in the Appalachian region - Beckley, West Virginia -- \$667,017

- o Development of biologically based control methods of vegetable pests in the Mid-Atlantic region - Beltsville, Maryland -- \$655,683

- o Vegetable and small fruit management systems on hill lands of the Mid-South - Booneville, Arkansas -- \$205,508

## SOYBEAN-BASED INK

Question. What are the amounts of funding and locations for research on soybean-based inks?

Answer. The Agricultural Research Service funding for fiscal years 1992 and 1993 for soybean-based ink research at the National Center for Agricultural Utilization Research, Peoria, Illinois, is \$509,600. This funding also supports a cooperative research agreement with Lehigh University in the amount of \$124,000.

Question: Please provide a summary of ARS' human nutrition research for the last two years showing location, focus and funding level of the research.

Answer: The total research budgets for each ARS Human Nutrition Research Center for fiscal years 1992 and 1993 are as follows:

Agricultural Research Service  
Human Nutrition Research

(\$ in Thousands)

<u>Center</u>	<u>FY 1992</u>	<u>FY 1993</u>
Beltsville Human Nutrition Research Center Beltsville, MD	9,234.0	9,227.9
Grand Forks Human Nutrition Research Center Grand Forks, ND	8,071.3	8,071.3
Human Nutrition Research Center on Aging at Tufts University Boston, MA	14,568.1	14,568.1
Children's Nutrition Research Center at Baylor College of Medicine Houston, TX	10,701.1	10,268.5
Western Human Nutrition Research Center San Francisco, CA	5,114.6	5,114.6

A summary of the focus of each Center is described in each mission statement.

Beltsville Human Nutrition Research Center, Beltsville, MD --

The role of foods and components in foods in optimizing health and reducing the risk of nutrition related chronic disorders, such as coronary heart disease, cancer and non-insulin dependent diabetes



in the diverse population; composition of foods and bioavailability of food nutrients required by humans; energy metabolism and energy requirements for weight maintenance; human requirements and metabolic roles of carbohydrates and dietary fibers; and mineral and vitamin interactions.

Grand Forks Human Nutrition Research Center, Grand Forks, ND --

Nutritional requirements for zinc, magnesium, boron, copper, and other trace elements and their relationship to optimal health, function, and performance; and physiological and biochemical factors influencing trace element requirements in all age groups and biological availability of minerals.

Human Nutrition Research Center on Aging at Tufts University, Boston, MA --

Nutritional requirements of the elderly for optimal health, function, and performance; the relationship of nutrition to the aging process; role of diet in the prevention of chronic degenerative conditions; the role of diet in bone health, prevention of cataracts, and immune response; the interrelationships of exercise and diet on body composition; and the requirements and tolerances of the elderly for folacin, vitamin B-12, vitamin A, vitamin B-6, vitamin K, and antioxidant nutrients.

Children's Nutrition Research Center at Baylor College of Medicine, Houston, TX --

Nutrient requirements of infants, children, pregnant, and lactating women; role of diet for optimum growth and physical and mental development -- specifically, the use of stable nonradioactive isotopes as markers in studies related to energy, protein, fatty acid, carbohydrate, iron, and calcium requirements for growth of young infants and improved lactation in women; and nutritional needs of pregnant teenagers.

Western Human Nutrition Research Center, San Francisco, CA --

Development of reliable, efficient, and inexpensive methods for defining nutritional status; effects of marginal nutrient levels on performance and immune function; development of nutritional criteria for evaluation of intervention programs; and human nutritional requirements, including omega-3 fatty acids, vitamin C, folacin, and molybdenum.

Question: Also, for the ARS human nutrition centers, what additional funding needs at each location could be used for them to reach their full potential?

Answer: The funding and staff required for each of the ARS Nutrition Centers if they were operated at full capacity are given in the following statements:

Beltsville Human Nutrition Research Center, Beltsville, MD.

The total funding to operate the Center at a full capacity of 50 scientists is \$19.6 million, an increase of \$10.3 million from current base funding.

Reaching full staffing and funding would allow generation of knowledge to better define the role of foods and food components in prevention of nutritionally related disorders in the biochemically, culturally and aged diverse population. Specific areas of expanded research activity impacted by the increase would include: \$2.5 million for full staffing of the diet facility for human metabolic studies; \$3.5 million for development of standard methods for nutrient composition of foods and reference materials for validation of analysis; \$1.5 million for characterization of individual variation in energy balance related to diet; \$2.0 million for modeling and systems analysis approaches to study nutrient kinetics; and \$0.8 million for interactions of nutrients in foods.

Grand Forks Human Nutrition Research Center, Grand Forks, North Dakota.

The total funding to operate the Center at a full capacity of 24 scientists is \$10.4 million, an increase of \$2.25 million from current base funding.

Full staffing and funding of the Center would allow expansion of knowledge on mineral requirements that would allow greater potential and optimal function throughout the life cycle and provide information for decisions concerning provision of a healthful food supply to the United States population. Specific areas of research impacted by an increase would be: \$1.25 million for research on effects of marginal or deficient trace element intake and status in adolescents and Native Americans on physiological and biochemical responses, cognitive functions, chronic diseases, and adaptations to environmental factors including airborne oxidants, and chemical and ionizing radiation; and \$1.0 million for research on trace element requirements of elderly people and adolescents, especially during the adolescent growth spurt and during cyclic weight loss of the general population, and importance of trace element and magnesium nutriture in bone metabolism.

Human Nutrition Research Center on Aging at Tufts University Boston, Mass.

The total funding to operate the Center at full capacity of 50 ARS and contract scientists at this ARS Government Owned Contractor Operated facility is \$18.0 million, an increase of \$3.4 million from current base funding.

Full funding and staffing of the HNRC on Aging would provide support to gain needed information about safe and adequate nutrient intake and identify factors that may contribute to the degenerative processes associated with aging. Specific research areas impacted by an increase would be: \$1.7 million for inter-relationships of diet, including antioxidants exposure;

genetics, and cell metabolism with immunological and other disorders of aging and \$1.7 million for relationships of diet with maintenance of neurological and cognitive functions in aging.

Children's Nutrition Research Center at Baylor College of Medicine Houston, Texas.

The total funding to operate the Center at full capacity of 50 ARS and contract scientists at this facility operated under a General Cooperative Agreement is \$16.0 million, an increase of \$5.75 million from current base funding.

Full funding and staffing at the Children's HNRC would allow needed expansion of present active programs defining the nutritional needs of infants and young children. Increases in specific research areas include: \$1.5 million for energy and protein needs on growth, development and body composition of breast fed and formula fed infants; \$1.5 million for beneficial effects of human milk in host defense and on gastrointestinal function; \$1.25 million for regulation of cholesterol synthesis during lactation; and \$1.5 million for dietary factors regulating preborn and infant growth especially in adolescent mothers.

Western Human Nutrition Research Center, San Francisco, California.

The total funding to operate the Center at a full capacity of 30 scientists is \$12.0 million, an increase of \$6.9 million from current base funding.

Full staffing and funding would allow expansion of present projects and initiation of studies in new areas directed towards meeting the WHNRC missions of developing knowledge on nutrient requirements and nutritional assessment methodology. Specific research areas of increased activity impacted by a budget increase would include: \$1.4 million for improving, evaluating, and implementing the computerized electronic approach to dietary assessment designed for independent use by lay subjects; \$1.0 million for expansion of support services in areas of body composition, energy metabolism and dietary assessment; \$1.0 million for establishing new research programs on diet and antioxidant metabolism; \$1.0 million for metabolism of dietary essential fatty acids in humans; and \$2.5 million for expanding present programs in diet and immunology and use of stable isotopes to study vitamin metabolism.

Question: What are your 1994 budget proposals for each of these locations?

Answer: The proposed funding in the 1994 budget for each of the ARS Nutrition Centers is as follows:

Beltsville Human Nutrition Research Center	\$ 9,178.5
Grand Forks Human Nutrition Research Center	8,028.1
Human Nutrition Research Center on Aging at Tufts University	14,490.2
Children's Nutrition Research Center at Baylor College of Medicine	10,213.6
Western Human Nutrition Research Center	5,087.2

## Potato Research

Question: Please provide the status of your potato research including the location, funding level for 1992, 1993 and 1994, as well as the purpose of the research.

Answer: A description of ARS potato research programs by location and funding level for fiscal years 1992, 1993 and 1994 is as follows:

ARS Headquarters - Funds maintained at headquarters are allocated for extramural research on ring rot, early dying and scab disease problems, aphid and beetle control, marketing, and variety development.

Albany, CA (PGECC) - Development of new genetic engineering techniques and gene expression of economically important genes of potato.

Albany, CA (WRRCC) - Improved potato quality using plant cell transformation and other genetic engineering techniques.

Athens, GA - Nondestructive measurement of potato quality.

Aberdeen, ID - Development of new improved pest resistant varieties and disease management strategies.

Peoria, IL - Identification and chemical mode of action of potato sprout inhibitors.

Orono, ME - Control of potato diseases and nematodes, develop integrated pest management strategies, and determination of soil and water stress effects on potato production.

Beltsville, MD - Germplasm evaluation, enhancement, and breeding improved varieties; protoplast fusion and other genetic engineering techniques; processing germplasm introductions; pathogen-host interactions and genetics of resistance; and biological control of potato insects. Field trials in support of the breeding program are at Presque Isle, Maine.

Frederick, MD - Research on exotic strains of fungal pathogens of potato including methods of detection and control.

East Grand Forks, MN - Physical properties and other factors associated with processed potato quality, volatiles and prediction of potato quality from bulk storage, processing quality factors of potatoes following storage, evaluation of potential new varieties for processing attributes, and inhibition of sprouting.

Fargo, ND - Marketing, storage, and inhibition of sprouting.

Ithaca, NY - Evaluation of potato germplasm for nematode resistance, biology, and the management of the golden nematode based on host resistance and cultural practices and biological control.

Wooster, OH - Management of potato insects.



Philadelphia, PA - Biochemical and ultrastructural features of interaction of potato pathogens with host plant, mycotoxin production in plants, and improved food processing methods for potatoes.

Prosser, WA - Evaluation and enhancement of potato germplasm including use of genetic engineering techniques, development of new improved varieties, and methods of disease control.

Yakima, WA - Insect behavior, insect ecology, biological control, and improved methods of pest control of potato insects.

Madison, WI - Classification, evaluation, preservation, and distribution of introduced germplasm; potato genetics and cytogenetics; and protoplast fusion and other genetic engineering techniques.

	FY 1992		FY 1993		FY 1994	
	Funds	Scientists	Funds	Scientists	Funds	Scientists
<u>Location</u>						
Albany, CA (PGEC)	\$ 197,500	1.0	\$ 232,500	1.0	\$ 232,500	1.0
Albany, CA (WRRRC)	980,100	4.7	1,300,400	4.7	1,300,400	1.0
Athens, GA	35,000	0.2	35,000	0.2	35,000	0.2
Aberdeen, ID	334,000	1.5	389,400	1.5	389,400	1.5
Peoria, IL	242,000	1.0	258,500	1.0	258,500	1.0
Orono, ME	593,400	2.8	592,900	2.8	592,900	2.8
Beltsville, MD	2,742,200	12.5	3,148,700	12.5	3,148,700	12.5
Frederick, MD	58,700	0.3	58,800	0.3	58,800	0.3
E.Grand Forks, MN	1,061,000	5.4	1,061,000	5.4	1,061,000	5.4
Fargo, ND	285,900	1.3	285,900	1.3	285,900	1.3
Ithaca, NY	270,300	1.2	270,300	1.2	270,300	1.2
Wooster, OH	24,300	0.1	24,300	0.1	24,300	0.1
Philadelphia, PA	153,200	0.6	153,200	0.6	153,200	0.6
Prosser, WA	1,043,200	5.1	1,024,900	5.1	1,024,900	5.1
Yakima, WA	773,300	3.5	803,200	3.5	803,200	3.5
Madison, WI	570,000	2.8	619,100	2.8	619,100	2.8
ARS Headquarters*	<u>1,684,000</u>	<u>0.0</u>	<u>1,422,900</u>	<u>0.0</u>	<u>1,422,900</u>	<u>0.0</u>
Total	\$11,048,100	44.0	\$11,681,000	44.0	\$11,681,000	44.0

\*Funds provided for cooperative research to the following States: Idaho, Massachusetts, Maryland, Michigan, Minnesota, North Carolina, North Dakota, New York, Ohio, Oregon, Pennsylvania, Virginia, Washington, Wisconsin, and Wyoming.

#### BUILDINGS AND FACILITIES

Question. For each of the facilities funded in the 1993 act, or for which a report was requested, list the amount of funding made available to date, the total estimated cost of the facility, and the current status in terms of whether construction is ready to begin or has begun and whether additional funds could be used in 1994.

Answer. The following information is provided for each of the facilities funded in the 1993 Act.

<u>Location/ Facility</u>	<u>Available Funding</u>	<u>Total Estimated Cost</u>	<u>Status</u>
Arkansas, Stuttgart National Rice Germplasm Evaluation and Enhancement Center	\$ 1,653,997	\$10,951,990	Design of facility will be completed in FY 1994.
California, Albany Western Regional Research Center	19,038,830	31,500,000	Design of the modernization program has been completed, with the exception of the West Annex Building which is underway. \$4.7 million is requested in the FY 1994 budget for Phast VI of modernization.
California, Parlier Horticultural Crops Research Lab and Water Management Research Laboratory	300,000	27,600,000	A contract for pre-design will be awarded the fourth quarter of FY 1993.
California, Riverside U.S. Salinity Laboratory	18,229,934	18,229,934	Construction of facility will be completed in the fourth quarter of FY 1994. No additional funds are needed in FY 1994.
Florida, Orlando Horticultural Research Laboratory	400,000	36,300,000	Master plan and environmental assessment of the new site is underway.
Georgia, Athens Poultry Disease Laboratory	1,077,000	4,500,000	Design of facility is currently underway. ARS is requesting \$3,300,000 in FY 1994 for construction.

Illinois Peoria National Center for Agricultural Utilization Research	3,370,000	70,000,000	The design of the Pilot Plant and the Semi-Works Building will be completed shortly. Construction of the pilot plant and Semi-Works Building is estimated at \$13.2 million.
Iowa, Ames National Pig Research Center	3,324,000	25,900,000	Pre-design of facility is currently underway. Final design is to be completed in FY 1994.
Louisiana, New Orleans Southern Regional Research Center	12,185,000	19,400,000	Design for facility modernization was completed. Phase I of construction was completed in FY 1992. Phase II of construction was completed in the second quarter of FY 1993. Construction of Phases III, IV, and V is currently underway. Construction of Phase VI, estimated at \$3.6 million is requested for FY 1994.
Maryland, Beltsville Beltsville Agricultural Research Center	67,257,000	205,000,000	In FY 1994, ARS is requesting \$10 million for the following projects:  o BARC-East Water System: Currently in design, \$7,000,000 is requested in FY 1994 for construction.  o BARC-West Electrical Upgrade. Currently in design, \$2,200,000 is

requested in FY 1994 for construction.

o Miscellaneous projects.

Michigan, East Lansing Regional Poultry Research Center	462,000	14,500,000	The pre-design of the facility, including an Environmental Assessment is currently underway.
Mississippi, Oxford National Center for Natural Products	19,057,000	23,000,000	Construction is underway with an estimated completion date of March 1995. Project is managed by CSRS.
Mississippi, Stoneville National Center for Warm Water Aquaculture	3,231,000	8,231,000	Design of Phase I awarded in the fourth quarter of FY 1992.
New York, Greenport Plum Island Disease Center	5,540,000	90,000,000	In FY 1994, ARS is requesting \$2,683,000 for environmental compliance projects requiring immediate repair.
Ohio, Lucas County Demonstration Greenhouse	345,000	345,000	Grant proposal for the construction of a greenhouse from the Ohio Botanical Garden is currently under review. Grant award expected within FY 1993.
Oklahoma, Woodward Headhouse/ Greenhouse for the Southern Plains Range Research Station	319,000	319,000	Design was completed in the second quarter of FY 1992. Construction of the greenhouse was completed in first quarter of 1993. Design and construction of headhouse will be



			undertaken in FY 1993. No additional funds are needed in FY 1994.
Texas, Lubbock Plant Stress and Water Conservation Laboratory	4,900,992	15,300,000	Construction of Phase I Headhouse/ Greenhouse will be completed shortly. A contract for design of Phase II Main Laboratory/ Office Building is scheduled for completion in FY 1993. An additional \$10,400,000 will be needed for construction.
Wisconsin, Madison Greenhouse for Cereal Crops Research Unit, Barley and Malt Laboratory	323,000	323,000	Pre-design contract will be awarded in the fourth quarter of FY 1993.
France, Montpellier European Biological Control Laboratory Phase I	600,000	2,605,000	Design contract will be awarded by the fourth quarter FY 1993. Construction of facility is estimated at \$1,800,000.

#### BUILDINGS AND FACILITIES

Question. What is the status of the move of the U.S. Horticultural Crops Research Laboratory from Fresno to Parlier, CA? What funds have been used and what is the further need?

Answer. The U.S. Horticultural and Water Management Laboratory requires a new permanent facility of approximately 75,000 gross square feet of space for research laboratories, offices, a headhouse/greenhouse complex, and a farm center and shop. Site development, and specialized equipment are also required at the new site. Total cost is estimated to be \$27.6 million. In fiscal year 1993, \$300,000 was appropriated for pre-design as part of a \$1.270 million appropriation for facilities in Montpellier, France; Orlando, Florida and Parlier, California. A predesign contract will be awarded in the fourth

quarter of fiscal year 1993. In 1992, ARS completed the acquisition of a 105-acre parcel of land in Parlier, California, for the laboratory site. The purchase price was \$1,000,000. An additional \$27.3 million is needed for planning and construction of this new research facility.

Question. What is the status of the movement of laboratories in Behoust, France and Rome, Italy to Montpellier, France. What funds have been used and what is the further need?

Answer. ARS research operations have been relocated to leased space in the Science Park at Montpellier, France. The ARS property in Behoust, France, with an appraised value of \$1.2 million, is presently for sale. To date \$331,300 has been spent for the purchase of a new laboratory construction site in Montpellier and \$100,000 has been committed for professional architectural engineering consulting services. The French Regional and District Governments will be providing subventions totaling approximately \$270,000 to assist in establishment of the laboratory. The Agency is anticipating a contract award for the design of the new 1,590 square meter laboratory using funds appropriated in fiscal year 1993. ARS will require \$1.8 million for construction of the new facility.

#### BIOFUELS

Question: Please provide a more detailed summary of your program on biofuels. What new research will your proposal entail?

Answer: Our biofuels research program is focused on developing improved technologies and processes for manufacturing ethanol and biodiesel fuels, and accompanying high value specialty coproducts. Research will be initiated on new pretreatment technologies for grain and energy crops to improve ethanol production efficiency and to capture additional coproducts prior to the fermentation process. Separation processes that are simultaneous with the fermentation process will be developed to enhance higher ethanol yields at lower energy requirements. New biodiesel fuels using vegetable oils and animal fats that improve engine performance and lower emissions will be developed and evaluated.

Question: What types of agricultural products will be used in the research?

Answer: For ethanol production, we are planning on using high starch grain crops, primarily corn. Our objective is to develop technologies that will convert the cellulosic components of the grain as well as the starch to increase the ethanol yield. For biodiesel production, we plan to use oilseed crops, primarily soybean, and animal tallow will be used as well.

Question: Are you coordinating with other research projects around the country on alternative fuels? Which projects?

Answer: ARS continues to collaborate closely with DOE biofuels programs through coordination efforts of the Department's Office of Energy. Our research efforts are also coordinated with

the programs of CSRS, FS and the Alternative Agricultural Research and Commercialization Center. In addition, we collaborate with a number of universities and with private industry. For example, the ARS National Center for Agricultural Utilization Research, Peoria, Illinois, works with Michigan State University, University of Florida, and Central Michigan University on improved starch degrading enzymes, genetically engineered bacteria for fermenting complex sugars, and nucleic acid probes. The biodiesel program at NCAUR has cooperative work with the National SoyDiesel Development Board, the University of Illinois, and the Southwest Research Institute to evaluate the performance characteristics of new fuel formulations.

Question: At what locations is your biofuels research being conducted and where will your increase be directed?

Answer: The major work is being conducted at Peoria, Illinois, and the Eastern Regional Research Center, Wyndmoor, Pennsylvania, with other ARS locations providing specific expertise. The fiscal year 94 increases will be directed to the Peoria and Wyndmoor locations.

#### ARS STAFF IN ARKANSAS

Question. I have been keenly interested in the ARS involvement in Arkansas and, in particular, the establishment of an ARS presence on the University of Arkansas campus. Over the past several years, a number of ARS positions have been assigned to Arkansas and I understand discussions are underway for increased activity. Can you explain what ARS is doing to help provide greater support to agricultural research efforts in my State?

Answer. We are pleased to report that all ARS positions on the University of Arkansas campus are filled, and that the research program of the ARS Poultry Production and Product Safety Research Unit at that location is well underway. Five scientists and seven support personnel are conducting research to solve problems associated with turkey and broiler production, to ensure wholesome poultry products for consumers, and to reduce the environmental impact of poultry production. The cooperation between ARS and University of Arkansas researchers is excellent. The South Central Family Farm Research Center at Booneville is operating at full strength, having employed two new scientists in the past year and a half. The addition of one of these scientists has enabled us to establish a new program of agroforestry research which is aimed at providing new sources of income for family farmers through multiple uses of rural lands.

#### NEW CONVERSION TECHNOLOGIES

Question. You propose an increase of \$6,000,000 for the development of new and expanded uses of agriculture commodities. It's unclear to me how this is different from what we are doing and you are proposing through AARC. Please explain.

Answer. The proposed ARS increase would fund pre-market laboratory research to develop new value added products from plant

and animal derived materials and new technologies for converting such materials to value added products, including biofuels.

Primary emphasis of the ARS new uses program is placed on development of products for those market opportunities that meet environmental needs, replace imports and petroleum-based products, and have new market potential based on performance. In addition to expanded use as food and feed, areas of interest include development of advanced materials and manufacturing technologies in the conversion of plant and animal products to biobased plastics, biofuels, soy ink, fiber products, biopesticides and ingredients for lubricants, paint and health care industries particularly those currently imported.

AARC provides near-market support often needed to accelerate movement of such products and processes from the laboratory to the market place. This includes scaling up processes and equipment to commercial size, conducting pre-commercial runs, and verifying that the technology performs on a commercial scale. These AARC supported activities complement ARS's technology transfer program carried out under provisions of the Federal Technology Transfer Act (FTTA) of 1986. This Act authorizes Federal research scientists to work as closely as necessary with private firms to help the companies commercialize technologies based on the scientists' research. ARS-industry cooperation under the FTTA is formalized through Cooperative Research and Development Agreements (CRADA's). ARS is a leader in the Federal Government in negotiating and implementing CRADA's with private industrial firms, and much ARS research is being successfully transferred for commercialization by this mechanism. A major difference between ARS technology transfer activities and AARC is that the latter provides financial assistance to the private sector developer for scale-up and start-up manufacturing through partnership arrangements. ARS does not provide any funding to its private research partners but may receive funding from them to help cover the costs of the joint research.

Question. Will there be coordination between the two?

Answer. Many of the technologies, which AARC seeks to promote and commercialize are based upon developments coming out of ARS laboratories. Coordination is led by interactions between staffs of the AARC and the ARS Office of Technology Transfer. Companies and other organizations generating proposals for AARC financial support often receive technical assistance from ARS scientists involved in the laboratory research to develop the technology in question. Other ARS scientists routinely serve on AARC panels to evaluate proposals.

#### SALMONELLA

Question. We have been concentrating for several years now on salmonella and you indicate in your testimony that you have been placing emphasis on this problem. What progress are you making? What direction is the research taking?

Answer. ARS research to control Salmonella has concentrated on solving the problem in poultry for several years. We have



developed a specific microbial culture containing known organisms that shows great promise in preventing Salmonella in broilers when administered to newly hatched chicks. ARS is now working with the Food and Drug Administration to test the product in the field under commercial broiler producer conditions. As Salmonella contamination of other food products was recognized, ARS realized that the animal industry needed basic knowledge on how to prevent Salmonella contamination of beef and pork. Thus Salmonella research was extended to cattle and to swine where the thrust has been to determine how animals acquire and maintain low levels of infection. With further advancement in these studies, we can develop effective strategies to prevent animal infection through management practices, competitive cultures, and/or vaccines.

## QUESTIONS SUBMITTED BY SENATOR JOHNSTON

Question: Important and badly needed modernization efforts were begun several years ago at the Southern Regional Research Center (SRRC) in New Orleans, Louisiana. I understand that the FY 1994 budget request recommends \$3.6 million to continue the modernization plan.

What exactly will this amount fund? Will this help the facility upgrade its research capability to further our nation's competitiveness?

Answer: The modernization program at the Southern Regional Research Center is presently emphasizing the Chemical Wing and site work. The Chemical Wing consists of 7 phases, 5 of which have been funded or are completed. The site work consists of 2 phases, the first of which is funded. The \$3.6 million requested in FY 1994 will be used for Phase 6 modernization of the Chemical Wing which will involve the renovation of laboratories, new HVAC system, new casework, electrical upgrade, fire safety improvements to meet current codes, and asbestos abatement.

The Southern Regional Research Center underwent a Facility Condition Survey in 1988 which described numerous code, safety, and performance deficiencies which must be corrected to achieve the necessary building performance for meeting today's scientific requirements. The proposed renovation will include updating to meet the building code requirements for safety, meeting handicapped accessibility requirements, and reestablishing a weather-resistant enclosure for proper environmental control and energy efficiency. These facility modifications will return this 1939 laboratory to an up-to-date research facility which are necessary not only to upgrade the research capability, but also to maintain current levels of research. The staff of SRRC represents a wide range of scientific and engineering backgrounds employing a spectrum of scientific approaches to solve problems of national concern and relevant to our nation's competitiveness. The diversity and complexity of modern scientific tools, instruments, and techniques requires that the physical facility of SRRC be capable of supporting these approaches. Some examples of important research approaches at SRRC follow.

Analytical chemistry plays an important role in many research projects. The use of gas chromatography/mass spectrometry (GC/MS), high performance liquid chromatography (HPLC), ion chromatography, X-ray fluorescence spectrometry, and nuclear magnetic resonance spectrometry requires that the electrical and air conditioning systems be able to accommodate these sensitive instruments and their computer systems.

Scientists at SRRC also use a variety of biotechnology techniques to develop new products and solve problems. Sterile cell culture, gene identification, mapping, sequencing and cloning, recombinant genetic manipulations, bioreactor fermentation and isolation of potentially toxigenic fungi are practiced at SRRC. These techniques have unique requirements of laboratory sterility necessitating that the SRRC air handling system be appropriately designed to avoid cross-contamination.

Cotton textile research at SRRC employs a variety of measurement methods to assess the performance of fibers and fabrics. Scientists use microscopy techniques including scanning and transmission electron microscopy, and X-ray dispersal analysis, as well as image analyzers. Various methods to assess the physical characteristics of cotton fibers are employed. All of these techniques and others require that temperature and humidity be controlled for accurate analysis.

#### SRRC ACCOMPLISHMENTS

Question: What types of accomplishments has the Center had in the past in research, and in particular in research in textiles? Has this been important to our nation's competitiveness.

Answer: We have had major and significant accomplishments from the Southern Regional Research Center. I will mention five of the more notable achievements. At our Winter Haven satellite, we developed frozen orange juice concentrate--a product that turned a surplus crop into a multimillion dollar industry. The Center acquired a world renown reputation for detection and detoxification of aflatoxin in food crops and in the development of standards and procedures for analysis and detoxification. By combining a surplus crop, sucrose, with fatty acids from vegetable oils, the Center produced sucrose esters, a new product for use as a functional food additive and a nonfood detergent. By changing the vegetable oil structure, acetoglycerides was developed for food and nonfood use such as coatings, films, and lubricants. Currently produced by foreign and domestic manufacturers, the five U.S. companies sell over 1,000 tons annually.

Major accomplishments in textile research at the Center have included development of the chemistry of permanent press for cotton and cotton-blend fabrics, flame retardant treatments of cotton fabrics, and a variety of machine developments for cleaning and processing cotton fiber up to the yarn stage. The detailed know-how in permanent press technology developed by the Center helped maintain leadership for the U.S. cotton textile industry in production and profitability of finished fabrics through the 1970's, accounting for over 1.5 million jobs from 1975-80. The Center developed flame retardant systems which generated a much

smaller but profitable business in protective clothing, being very important also to the military. The work in mechanical processing of the fiber stimulated many machinery developments by U.S. and foreign textile machinery manufacturers. Thus, our research on textiles has been important to the cotton producer in maintaining markets, to the consumer in providing the clothing care and comfort characteristics desired, and to the nation's competitiveness in jobs, market retention and creation, and quality of product.

Question. Some \$7 million nationwide has been budgeted, as I understand it, for ARS in the so-called "investment" budget. What portion of this recommendation will be allocated to New Orleans if it is funded? What types of research will it fund, and for what commodities?

Answer. As part of the proposed "investment" budget for fiscal year 1994, \$700,000 has been identified at New Orleans for development of new and improved technologies. Advanced, low-cost, high-speed manufacturing processes will be devised to produce new, high-value yarn products from cotton and value-added products from rice that enhance utilization and end-use acceptability.

Question. Has the SRRC participated in any initiatives to strengthen partnerships with our nation's Historically Black Colleges and Universities? In particular, do USDA and ARS participate in the FCCSET program, which is designed to improve math and science education? Which programs? Could you do more, with for example special summer workshops for high school teachers or for university professors? What resources would this require?

Answer. SRRC participates in the Department's USDA/1890 Initiative to develop and strengthen partnerships with the Historically Black Colleges and Universities (HBCU's). SRRC is a participant in a Master Memorandum of Agreement with Southern University - Baton Rouge, Southern University - New Orleans, Xavier University of Louisiana, Dillard University, VA Regional Office, Department of the Navy, Eighth Coast Guard District, Southern Forest Experiment Station, VA Medical Center, District Equal Employment Opportunity Commission and the U.S. Customs Service. The purpose of the agreement is to provide the cooperative framework for the parties to consider and explore opportunities for mutually beneficial activities. This cooperative effort is a mechanism which will be used to support and carry out the spirit of Executive Order 12677 which calls for Federal Agencies to strengthen the capacity of the HBCU's. Activities of this group include, but not limited to:

- Curriculum Development
- Participation in HBCU conferences
- Career Fairs
- Speakers Bureau
- Intergovernmental Personnel Act assignments
- Cooperative Education and student appointments

USDA participates in the FCCSET program and has been designated to Chair the Graduate Work Group for the Committee on Education and Human Resources (CEHR). The Agricultural Research

Service supports a Teacher Research Fellowship Program which provides hands on experience to junior and senior high school math, physical science, and biology teachers. This experience is provided to teachers in order to stimulate their interest and enthusiasm which is passed on to the students. Funding for this program comes from general operating funds. This is an extremely popular program within ARS and within the communities from which participants are drawn.

Question. A major problem in New Orleans and in eight other Southern States is the spread of Formosan termites which are literally eating through wood supports of many important historic buildings. These termites apparently live in old oak trees prevalent throughout the area. Does ARS have the capability to undertake research on this pest and its habitats to try to help in the primarily local and State efforts now underway to find a way to treat trees where the termites live to control them? If ARS has such a capability, what resources would you need to undertake such an effort?

Answer. Scientists of the ARS Imported Fire Ant and Household Insects Research Unit, Gainesville, Florida, are aware of the Formosan termite problem and we have the capability to work with State scientists to develop the means for controlling this pest. A specific cooperative agreement with the University of Hawaii in the amount of \$122,926 per year has been in effect for 4 years on the integrated management of the Formosan termite and other urban pests in Hawaii. This research has devised a new method of Formosan termite detection, identified a potential fungal pathogen of the Formosan termite, and developed possible chemical wood treatments to prevent termite feeding. To develop a meaningful and cooperative program in the Southern United States, we estimate that we would need an additional \$750,000. This would support two scientists and provide funds for cooperative programs with State universities now working on Formosan termites. With these additional funds, we would establish field sites in New Orleans, Louisiana, Mobile, Alabama, Charleston, South Carolina, and other appropriate locations, and would modify an existing laboratory facility to specifically address this problem.

Question: In 1990, the Lower Mississippi Delta Development Commission, which was established by P.L. 100-468, issued its final report, the Delta Initiatives. The Commission was charged with making recommendations regarding economic needs, problems and opportunities for the 219 counties which comprise this region, the poorest area in the country.

One of the recommendations of the Commission was increasing the access of all citizens in the Delta to health promotion and health education programs. This of course would include information on nutritional needs and assistance to help those in the lower Delta area improve their diets, and their health.

One of the biggest health problems in this region is obesity, and the serious health problems which flow from this condition: heart and kidney disease, etc. In fact, obesity may be second or third in causes of deaths in this area.



Is the Department undertaking any initiatives to carry out the recommendations of the Commission, made three years ago this month, to improve access in this area to better nutrition, or for nutrition education and training? Is there any program specifically targeted on the lower Mississippi Delta Region? Why not? Is there any program -- research or otherwise -- geared toward helping document and solve the problem of obesity, or the relationship of obesity and diet?

Answer: The Food and Nutrition Service administers 15 food assistance programs. Roughly one in six Americans participates in one or more of these programs every year. The fiscal year 1994 budget request for Food and Nutrition Service is \$38 billion. A listing of major food assistance programs follows:

- Food Stamp Program
- National School Lunch Program
- School Breakfast Program
- Child and Adult Care Food Program
- Summer Food Service Program
- Special Milk Program
- Nutrition Education and Training Program
- Special Supplemental Food Program for Women, Infants and Children (WIC)
- Commodity Supplemental Food Program
- Farmers' Market Coupon Program
- The Emergency Food Assistance Program
- Nutrition Assistance Program for Puerto Rico
- Food Distribution Program on Indian Reservations
- Commodities for Soup Kitchens
- Nutrition Program for the Elderly

None of these programs is specific for the Lower Mississippi Delta, however, 100 percent of human nutrition research funds spent on nutrition problems is relevant to the Mississippi Delta.

The Cooperative Extension Service operates the Expanded Food and Nutrition Education Program. The National Agricultural Library and Food and Nutrition Service work with the University of Mississippi National Food Service Management Institute. All of these programs include the people of the lower Mississippi Delta.

The food stamp State agencies or related State agencies in the lower Mississippi Delta Region could develop nutrition education programs under food stamp rules at 7 CFR 272.2(d) and (e). Such programs could be targeted specifically to the needs of the area and can be funded via food stamp State administrative funding which must be matched 50 percent.

Documentation of obesity is accomplished by the National Health and Nutrition Examination Survey conducted by the Centers for Disease Control. The relationship of diet to obesity and health is studied at four of the five Human Nutrition Research Centers. In addition, the National Institutes of Health funds nutrition and obesity research centers at the University of Vermont, Burlington, Vermont; New England Medical Center, Boston, Massachusetts; and the University of Pittsburgh, Pittsburgh, Pennsylvania.

The problems of obesity are being addressed by many government and private agencies in response to the US Surgeon General's Report, Healthy People, 2000.

Question: What percent of human nutrition research and education funds from USDA is spent on nutrition problems in this area? Has the Department reviewed the recommendations of this Commission and developed any long range plan for implementing it, or parts of it, which fall under the jurisdiction of USDA?

Answer: None of the USDA funding for human nutrition research is targeted to a specific geographic area. However, 100 percent of human nutrition research funds spent on nutrition problems is relevant to the Mississippi Delta. All of the human nutrition research conducted by ARS is applicable to the population of the United States. The percent of education funds spent in the area would have to be determined by analysis in cooperation with State agencies. The Food and Nutrition Service and Cooperative Extension Service work with State agencies and most programs are based on economic need.

Question. The Commission identified a number of important steps all Federal agencies, not just the Department of Education, could and should take to help turn this unacceptable situation around. Has the Department initiated any programs through any of the science and education programs under its jurisdiction to address specifically the needs of the Delta Region? Are there any specific programs in which the Department has encouraged Land Grant Institutions in this area to participate?

Answer. USDA has established the Capacity Building Grants Program which serves as the crux of the Department's high priority initiative to advance the teaching and research capacity of the 1890 Land Grant Institutions. It addresses the need to attract more minority students into the food and agricultural sciences, expand the linkages among the 1890 Land Grant Institutions and with other colleges and universities, and strengthen the overall capacity of the 1890 Land Grant Institutions to more firmly establish them as full partners in the food and agricultural science education system. The program is competitive in nature and provides support for teaching and research projects in targeted high-priority areas. It also encourages matching support from non-Federal sources and requires cooperation with one or more of the USDA agencies.

Question. Has, for example, the Department sponsored or proposed any initiatives to help combat adult illiteracy in the lower Mississippi Delta Region through the Cooperative Extension Service?

Answer. Combating adult illiteracy is part of the ongoing programs for the Cooperative Extension Service at both Louisiana State University and Southern University. The work of the Lower Mississippi Delta Development Commission heightens awareness of the literacy problem in the region. Extension has incorporated that awareness into the delivery of its programs and cooperative efforts with school boards, libraries, churches, and other public service agencies at the local levels.

## OVERVIEW OF THE CURRICULUM DEVELOPMENT AND STRENGTHENING PROGRAM

Question. Has the Department undertaken any of the initiatives outlined in the 1990 report such as increased partnerships with HBCUs and other institutions in the Delta to expand faculty training, or to sponsor graduate or undergraduate education opportunities?

Answer. Since Fiscal Year 1986 the Congress has appropriated funds specifically for Curriculum Development and Strengthening at Mississippi Valley State University, Itta Bena, Mississippi. Annually the university submits a proposal and a progress report to the CSRS.

In addition, Delta region universities are included in USDA/1890 Land Grant University programs. Among these are the already mentioned Capacity Building Grants program; the research and extension facilities program under which the University of Arkansas at Pine Bluff (UAPB), Southern University, and Alcorn University have received funding; and the new Centers of Excellence program, under which the Agricultural Research Service is cooperating with UAPB to enhance aquaculture research there.

Question. Have any steps been taken to target more research and development funds to HBCUs working in consort with other Delta research institutions, as recommended by the Commission? Why not?

Answer. USDA has made a commitment to establish a Center of Excellence at each of the 1890 institutions over the next 5-7 years. Several collaborative ventures are being pursued with HBCUs that are located in the Delta Region. For example, ARS has initiated a proposed venture with the University of Arkansas-Pine Bluff on aquaculture technology development and the ARS Catfish Genetics Laboratory, Stoneville, Mississippi, and Godollo, Hungary. The strategy is that Godollo and Stoneville would contribute technology to be incorporated into aquaculture engineering developments at Pine Bluff and the Fisheries Research Institute, Szarvas, Hungary. Pine Bluff has a close association with the Arkansas fish cannery industry which is targeted to be the initial recipient of the technology.

ARS has a Research Support Agreement with Alcorn University on "Chinese melon production research." This melon is reported to lower hypertension, reduce the risk of diabetes, and relieve arthritis. Alcorn has a germplasm collection and will grow it in 1993. Joint research is also taking place with Southern University in Forestry, and Soil Conservation Service is doing joint research with Southern University on the Technological development on Grazing Land Application.

Question. Have any programs been undertaken to provide career training for high school students in the Delta region in career opportunities in forestry, or nutrition, or other areas in which the Department has expertise?

Answer. While ARS does not have a program specifically for the Delta region, we do have the ARS Research Apprenticeship Program which targets high school juniors and seniors and offers a "hands-on" research experience. ARS scientists serve as mentors for the summer and work with students on specific research projects. This program has been very successful and is popular among the scientists and high school faculty. Since 1980, over 2000 students have participated in the program.

Question. Does the Department participate in the FCCSET program?

Answer. USDA is a very active participant in a number of FCCSET initiatives including: Advanced Manufacturing Technology, U.S. Global Change Research, Advanced Materials and Processing, Biotechnology Research, and Science, Mathematics, Engineering, and Technology Education.

Question. What initiatives if any have been undertaken in the lower Mississippi Delta Region to improve math and science education by the Department for lower, middle and secondary students? For teachers?

Answer. The Department participates in the AG-HOPE program which is sponsored by Alcorn University. This program provides high school students with hands-on experience in laboratories working with a scientist/mentor. The experience is designed to impact the science pipeline and offer experience to students who have expressed an interest in the agricultural sciences. Programs similar to this one are located at Delaware State College, Kentucky State University, and University of Maryland-Eastern Shore. For teachers, there is an ongoing HBCU program in the Delmarva, Delaware area which brings Agricultural Sciences and Vocational Agriculture instructors to the campus for 1-2 weeks during the summer. Seminars, briefings, and field trips to USDA laboratories are sponsored to provide additional insight into the Agricultural Science careers.

Question. Have any partnerships been established with HBCUs, outside the 1890 Land Grant program? Are there further linkages which the Department could develop with such institutions to improve undergraduate and post graduate training for students and faculty from these institutions? What resources would these require?

Answer. There are numerous partnerships with HBCUs other than the 1890 Land Grant Institutions. Ongoing partnerships exist with Howard University, Lincoln University in Pennsylvania, Dillard University, Cheyney University, and the University of District Columbia.

We estimate that an additional \$500,000 would be required for expansion of successful ongoing programs such as the Teacher Research Program, Cooperative Education, and the Post-Doctoral Research Associate Program.



Question. Has the Department budgeted funds for the EPSCoR program in FY 1994? What types of projects and research have been undertaken through EPSCoR in the past? Has this program increased the participation of institutions from the lower Mississippi Delta Region in the Department's research and development opportunities?

Answer. The USDA Cooperative State Research Service has budgeted funds for the USDA EPSCoR-like program in FY 1994 in the National Research Initiative (NRI).

The mission of the USDA EPSCoR-like program is to strengthen agricultural research at small and mid-sized academic institutions in states that have traditionally received less support from the competitive grants program. USDA has identified a set of USDA EPSCoR States based upon their success in obtaining competitive research grants from USDA. The USDA EPSCoR-like program has chosen to target funds to alleviate impediments that limit research capacity of individuals and institutions in USDA EPSCoR States. These include providing funds for: sabbatical leaves in order to provide an opportunity for faculty to enhance their research capabilities (Career Enhancement Awards); the purchase of research equipment to strengthen the research capacity of institutions (Equipment Grants); experimentation to collect preliminary data in preparation for applying for a standard research project (Seed Grants); and standard research projects (Standard Strengthening Grants). The USDA EPSCoR-like program was initiated in FY 1992. Although only in its second year, it has been very positively received by the USDA EPSCoR States. NRI funding to USDA EPSCoR-States in FY 1992 increased 87 percent when compared to FY 1991. Some USDA-EPSCoR States saw a 6- to 14-fold increase in funding from the NRICGP. Proposals submitted from USDA EPSCoR States represented 10 percent of the total number of proposals submitted to the NRI. USDA EPSCoR States were awarded 15 percent of the research grants and 10 percent of the total available dollars.

Through this program grants were awarded in the State of Mississippi as follows:

#### Equipment Grants

Mississippi State University	\$ 30,132
University of Southern Mississippi	\$ 13,900

#### Seed Grants

Mississippi State University	\$ 99,992
Univ. of Mississippi Medical Center	\$ 50,000
University of Southern Mississippi	\$ 50,000

#### Standard Strengthening Grants

Mississippi State University	\$200,000
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## QUESTIONS SUBMITTED BY SENATOR FEINSTEIN

### Grape Rootstock/Phylloxera

Question: Phylloxera, a root-feeding aphid-like insect, is the most significant pest of wine grapes. Currently because of phylloxera, many California winegrape growers must take out their vines, clean the land, and replant. It is imperative that the new rootstock be resistant to phylloxera and free of grapevine viruses which also can seriously reduce production and kill the plants. Basic research is needed to find control strategies for phylloxera and develop quick methods to screen imported grape rootstock for viruses.

For a number of years, ARS has supported grape rootstock research at Davis, California. I understand that a total of \$250,000 is required to continue this important program in fiscal year 1994. What is in the ARS budget for grape rootstock research in FY 1994? What is your capability?

Answer: In fiscal year 1994, the proposed ARS budget contains approximately \$134,580 directed toward grape rootstock research. This research will be carried out at Davis and Fresno, California. At Davis this research involves isolation and identification of pathogens associated with diseased grapes; determination of their roles in disease; and determination of the means of spread of these pathogens. In Fresno, the research is focused on development and selection of improved rootstocks for advanced horticultural characteristics and resistance to soilborne pests (e.g., grape phylloxera). However, screening for resistance to grape phylloxera has not been a major objective of this work up to this point. Less than 17% of new selections are currently being screened for phylloxera resistance.

With existing resources of \$53,000 committed at Davis, ARS has the capability to conduct research on the epidemiology and control of pathogens, including latent viruses and virus-like agents, associated with existing grapevines. In addition, ARS could increase its capability to eliminate these viruses from grape nursery stock. At Fresno, we presently commit \$81,500 for development of phylloxera resistant grape rootstocks but have the capability to greatly expand this program.

### METHYL BROMIDE

Question. EPA has decided to phase out the use of methyl bromide by the year 2000. As you know, methyl bromide is widely used as a soil fumigant for fruits, vegetables, and tree nuts as well as a post-harvest fumigant for many exported agricultural commodities. At the present time, there are no economically viable alternatives to methyl bromide. What is ARS doing to make sure that research on alternatives to methyl bromide is carried out? What steps is ARS taking to coordinate with research efforts of agricultural producers?

Answer. Our scientists have been conducting research to find alternatives to replace chemical pesticides including methyl

bromide for soil and commodity treatments. Specifically relating to the proposed ban on methyl bromide, we are conducting soil treatment research in the amount of \$2.5 million which focuses on development of crop resistance, biological control, cultural practices and improved chemical control strategies including development of "natural" products. The ARS program to find replacements for methyl bromide for post harvest quarantine and quality maintenance uses currently is about \$5.0 million. This research includes heat and cold treatments; controlled atmospheres; improved chemical control agents including fumigants, microbials, and other biorational materials; combination treatments; use of biocontrol agents, and establishment of pest-free areas.

ARS personnel interact regularly with industry representatives in various forums including methyl bromide technical meetings. An ARS representative participates on the United Nations Environment Program Methyl Bromide Technical Alternatives Committee which has several representatives from the U.S. industry. Our National Agricultural Pesticide Impact Assessment Program conducted an indepth analysis of the impact of methyl bromide loss on U.S. agriculture. ARS scientists participated last year with other USDA agencies in a methyl bromide research workshop also attended by industry representatives. We currently are participating with six other USDA agencies in planning a workshop in late June of this year to focus on research needs for alternatives to methyl bromide treatments. Industry observers will attend.

#### PM 10

Question: The Clean Air Act requires that non-attainment areas achieve air quality standards for small particulate matter, known as PM 10, by December 31, 2001. The San Joaquin Valley, a major agricultural area in the United States, consistently has exceeded both State and Federal clean air standards for PM 10. According to the California Air Resources Board, air pollution in California costs over \$300 million annually in crop damage.

There is currently a comprehensive research effort involving local, State, and Federal agencies and the private sector to identify the sources of this pollution and address the problem. EPA has contributed funding to this project, but I am told ARS has not done so. I also am told ARS' fair share would be \$1 million per year for 5 years.

Why hasn't ARS contributed to the San Joaquin Valley PM 10 research project? What level of funding could ARS make available in FY 1994 to participate in this research effort?

Answer: The total ARS wind erosion research is funded at \$1,569,590. This includes an increase of about \$116,500 from internal redirection in 1993, specifically in response to the concern about PM 10. Although none of those projects are conducted in California, the results should be applicable to the San Joaquin Valley. ARS has established several sampling stations in California to collect PM 10 dust and is working cooperatively with the SCS to service these stations. We plan to continue to support this work at the same level in 1994.

## QUESTIONS SUBMITTED BY SENATOR COCHRAN

Question. The recent outbreak of illness from contaminated meat has raised questions about the safety of our food supply. USDA has indicated that visual inspection cannot detect pathogenic bacteria and that additional research is necessary to find ways to improve our current inspection capabilities. What research has already been done on pathogenic bacteria which might have immediate application? What additional research is required in this area?

Answer. The ARS has studies underway to develop a more rapid method for detecting *E. coli* 0157:H7, the bacteria from hamburger which was linked to illness and deaths in children. Although more rapid than current methods, this assay will probably still not be sufficiently fast to be useful to detect infected beef carcasses in large slaughtering and processing operations.

Because microbiologists generally agree that tests sufficiently rapid and inexpensive to identify specifically contaminated individual carcasses on a slaughtering and processing line are not likely to be developed soon, ARS research is utilizing other approaches to help assure microbiological safety of meat and poultry and their products. These approaches include the development of effective controls for use during slaughtering, processing, and handling to prevent contamination of food products (postharvest controls). ARS has developed carcass washing systems for both poultry and red meat utilizing water sprays and the addition of brushing or organic acids and phosphates where appropriate. The use of these systems is now being explored by the industry. ARS has demonstrated that irradiation will control many of the hazardous bacteria of concern, including *E. coli* 0157:H7. Earlier ARS studies were a major part of the petition used to obtain Food and Drug Administration approval of irradiation for pathogen control in poultry.

To achieve acceptable pathogen control, additional studies are needed in both preharvest and postharvest areas. Pathogen control must start with the development of on-the-farm prevention and control measures (preharvest) to help assure that hazardous bacteria are not present in the live animals and poultry presented for slaughter. Additional research is needed to understand the sources of infection of live animals and poultry and how these pathogenic organisms remain in the live animal or bird, and to identify strategies to keep animals free of infection either by vaccination, competitive microflora, and/or by improved production practices and nutrition. In post harvest areas research is needed to optimize the use of sprays, brushing, and/or organic acids for microbial control during slaughtering and processing; to incorporate the effect of microbial interactions/competitions, fluctuating temperatures, and other factors into the current models of microbial growth in meat products; to further improve methods for rapid microbial detection; and to develop the information necessary to meet Food and Drug Administration requirements for approval of irradiation for pathogen control of red meats.



Question. How does the USDA coordinate research planned or underway between the ARS and the CSRS to achieve efficiencies and avoid duplication of effort?

Answer. ARS coordination of research with the CSRS is facilitated at the administrator's level through the participation of the respective Agency Administrators at Science and Education level meetings on the establishment of research priorities. Also both Agencies are members of the Joint Council on Food and Agricultural Sciences, a Department level function. At the working level, the planning staffs of both Agencies jointly participate on committees operating either through the Assistant Secretary for Science and Education or the Department. Workshops and research programs in selected areas are jointly developed through either ad hoc or standing task forces and working groups. Before planning new research projects these groups, as well as individual research scientists in ARS and university laboratories, consult with the Current Research Information System (CRIS). Use of this system, which is a source of information regarding all research funded by either ARS or CSRS, helps to achieve efficiency and avoid duplication of research.

Question: Funding for the investment program proposed in the President's fiscal year 1994 budget will require this Committee to find offsets within existing program resources if it is to comply with the cap on total discretionary spending. Investments totaling \$47 million are proposed for USDA science and education programs, including \$7 million for the ARS, \$39 million for the CSRS for National Research Initiative competitive grants and forestry research, and \$1 million for the Extension Service.

What priority do you give these proposed investments if they must be funded at the expense of funding requested for other ongoing USDA research and education activities?

Answer: The President's Budget includes an investment proposal of \$7 million within ARS for research on advanced manufacturing technologies in the production and utilization of agricultural commodities. This research would contribute toward the long-term economic stability of U.S. farmers, rural communities, and American competition in foreign markets. The President's Budget also recommends a net increase for ARS of \$8.3 million to finance the annualization of pay raises granted in FY 1993 and to offset non-salary inflationary costs sustained by the Agency in the conduct of priority research at its national and regional laboratories. These proposed increases are critical to the Agency if it is to adequately maintain ongoing research programs which target a multitude of complex and diverse agricultural problems confronting U.S. producers and consumers.

Both areas of the President's budget--ongoing research and the investment proposal--are crucial components of the Agency's research program. It is essential that ARS secure those resources necessary to continue those vital programs which are currently being carried out to solve problems dealing with: nutrition and diet relating to chronic diseases; sustainable agricultural practices; food safety issues; alternative pest management

strategies; action agency requirements of APHIS, FSIS, FGIS, AMS, HNIS, EPA, and others. It is also necessary to finance the base research effort currently underway in the areas of finding new uses for agricultural commodities, and investigating new crops and biofuels technologies which complement the research requested under the investment proposal.

Question. What is being done to maximize the benefits of our many research efforts to the agricultural community through education programs carried out by the Extension Service?

Answer. Summaries of up-to-date ARS research results are entered into an Extension Service electronic data base called Almanac. These results are retrievable by Cooperative Extension Service agents throughout the Nation via Internet for use in their education programs. In addition, ARS scientists regularly assist Extension agents in preparing education materials and conducting demonstrations and seminars. An outstanding example of cooperation is the Gossym Comax Information Unit, headquartered at Mississippi State, Mississippi. This Unit assists producers in use of Gossym Comax, a computer based, production cotton crop model. Scientists of the ARS Crop Simulation Research Unit provide technical backup, maintain and update the scientific core of the model, and assist Extension specialists in conducting training sessions on its use.

#### Midsouth Research Center

Question. At the Midsouth Research Center in Stoneville, ARS has initiated pilot tests on a virus that is highly selective, in that when it is applied, it has no environmental effects on any other plant or animal species other than the tobacco budworm, the most costly cotton insect pest in the nation. Producers in our region of the country are excited about this project which could translate into literally hundreds of millions of dollars in cotton production income. Are we moving forward as quickly as possible to determine the feasibility of this control method? How long will it take to complete this important research project? What funding is required in each of the years remaining on this project, including fiscal year 1993? How much is ARS making available for this project in each of these years?

Answer. We are well aware of the tobacco budworm problem on cotton and are highly encouraged by the positive results of our virus pilot tests conducted in recent years in the Mississippi delta. As you point out, the producers in the region are excited about the potential of this new non-pesticidal technology to reduce costs, minimize adverse impacts on the environment, and increase productivity and profitability. Consequently, the producers requested ARS to conduct a larger program to demonstrate feasibility of virus control of the budworm on an area-wide basis. Such a trial on a 20-mile diameter area (314 square miles) is now tentatively scheduled for the 1994 growing season. This program will cost approximately \$840,000, or about \$7.00 to \$8.00 per cotton acre in the test area compared with up to \$200 per acre

now costing cotton farmers using existing insecticide technology. ARS has already allocated \$188,000 in fiscal year 1993 to initiate virus production and will allocate \$150,000 in scientific effort and funds to this project in 1994. An additional \$500,000, or about \$4.00 to \$5.00 per cotton acre, is needed in fiscal year 1994 for application of the virus and overall project evaluation. Currently, these funds are not available to ARS. If additional funding is not available in fiscal year 1994, the virus can be stored with no loss of activity until funds are secured to proceed with the area-wide program in another year. In the meantime, the possibility of financial support from other sources will be explored. We would like to enter into a cooperative financial arrangement with the cotton producers in the pilot test area to secure from them the additional support needed for the project in 1994 at a cost which will be much less than one insecticide application on a per acre basis. Based upon the earlier, smaller-scale tests conducted with the virus, the cotton producers can expect to have much reduced insecticide costs in the test area which will more than offset their financial support for the program.

Question. Funding was provided for fiscal years 1992 and 1993 for the establishment of the National Warmwater Aquaculture Research Center in Mississippi. Currently, the initial phase of scientific support and facilities construction is being completed. An aquaria building for laboratory research and approximately 100 acres of research ponds will be completed by the end of calendar year 1993. Private industry is also building an additional 60 acres at a cost of \$300,000 to strengthen the Center.

The original proposal, which this Committee reviewed in fiscal year 1992, called for the addition of eleven new scientists to complement the corps of six specialists who were focusing on warmwater aquaculture research at the Stoneville Center prior to fiscal year 1992. The original plan also called for a laboratory building to house the scientists.

Could you please provide us with a progress report on these activities and tell us of your future plans for bringing about full implementation of the National Warmwater Aquaculture Research Center at Stoneville?

Answer. Two new scientific positions have been funded. A molecular biologist has been hired by ARS and an engineer is being recruited by Mississippi Agricultural and Forestry Experiment Station through a specific cooperative agreement. Additional staffing will be initiated as program funds become available. Construction has been initiated on the aquaria building, plans are complete for the office laboratory, and an additional well has been installed. Construction is being initiated on the 100 acres of ponds. Research programs are currently addressing industry problems related to water and product quality, nutrition, diseases, and genetics. Full implementation of the Center may have an important favorable impact on the Mississippi catfish industry and U.S. aquaculture in general.

## KENAF

Question. I understand we are making significant progress in our kenaf research and product development efforts. In fact, I note that the Extension Service plans a program to educate agricultural professionals on the commercial uses of kenaf. Would you please update us on the results of our research efforts to date and tell us what funding is included in the fiscal year 1994 request to further the development of new alternatives for utilization of kenaf?

Answer. Through cooperative projects with USDA and university scientists and with industry organizations, promising new uses have been identified. Kenaf is showing superior performance as an oil absorbent, for use in cleanup and spill remediation. Natural Fibers Corporation of Louisiana, one of the four start-up kenaf processors, has a sizeable order from GSA for this use which will create 60 new jobs. Detailed evaluation of kenaf for absorption of oil and other applications as an absorbent is underway at the University of Houston. In developments at the University of Delaware, kenaf looks promising as a major component of a horticultural growth media for tomatoes, flowers, and other crops particularly in greenhouses.

At the University of Delaware, use of kenaf as a poultry litter has been shown to be very effective and the use of spent manure/litter composite as a cattle feed has been well established. EPA is very interested in the potential for this recent development to reduce the pollution load on the Chesapeake Bay from poultry manure from the Delmarva peninsula. The Forest Service in Madison, Wisconsin, is working on resin composites, nonwoven mats for forest seedling protection, and on specialty paper applications. In New Orleans, ARS is working on processing kenaf to nonwoven mats for carpet underlay, garden care, and forestry applications. Agro-Fibers Incorporated, a California firm, is supplying kenaf for mats to prevent soil erosion. Our Ginning Laboratory in Stoneville, Mississippi, is working with kenaf processors to improve the processing/separation of kenaf into long fiber bast and core components. At El Reno, Oklahoma, our scientists have demonstrated that green, unprocessed kenaf has good potential as a forage crop, and could be grown in rotation with major grain crops.

Through a cooperative agreement with ARS in Stoneville, Mississippi, Mississippi State University is working with the Fiber Cooperative of Tallahatchie County to establish specific markets for the fiber. Besides detailed work on the above applications, they have developed animal bedding as a promising new use. They are also working on new harvesting and processing techniques and on some agronomic aspects. We also carries on research on agronomic studies in kenaf in Weslaco, Texas, and Lane, Oklahoma.

In fiscal year 1994, the estimated level of funding for the development of kenaf as an alternative crop and increased utilization opportunities is \$1.26 million.



Question. The prepared testimony indicates that ARS has over 290 Cooperative Research and Development Agreements (CRADA's) with private firms to commercialize new technology and stimulate new business enterprises. Could you please give me some additional information relative to these agreements, as well as patents on ARS research work? What determines whether or not a particular ARS scientist's research results are patented? What are the benefits to the scientist? What are the benefits to the Agency?

Answer. ARS patents technologies for the purpose of enhancing technology transfer. Patenting is done in those instances when the securing of intellectual property rights is necessary in order to protect private investors to expend their own resources in the commercialization of government conceived technologies. The scientists benefit through the satisfaction of seeing public utilization of their original concepts as well as directly sharing in a 25 percent share of all license income received. In fiscal year 1992, 106 scientists received awards averaging \$3,300. The Agency benefits from this program through more effective transfer of technologies generated in ARS laboratories and through use of the remaining 75 percent of licensing revenues to fund the technology transfer program.

Question. I understand ARS may license a patent exclusively to an individual private firm. How long has this been possible? How is the decision made to do this? How is the determination made of the specific firm to receive such a license?

Answer. Public Law 96-517, Amendments to the Patent and Trademarks Laws, signed December 12, 1980, provided the authority for Federal agencies to grant exclusive licenses in order to promote utilization of inventions arising from federally funding research. Exclusive or partially exclusive licenses may be granted if the potential licensee can demonstrate that such exclusivity is a reasonable and necessary incentive to justify the investment of risk capital and other expenditures which will be required to bring the invention to practical application. The license applicant is required to provide detailed documentation to ARS, describing the applicant's plans for the development and marketing of the invention and information about the applicant's capability to fulfill the plan. The public is given the opportunity to comment prior to the grant of any exclusive license, and the scope of exclusivity granted will not be greater than necessary to provide the incentive to bring the invention to practical application. Frequently, partially exclusive licenses are granted which may limit the scope of exclusivity to a particular field of use or geographic territory.

Question. What is the relationship of patents to CRADA's?

Answer. Cooperative Research and Development Agreements also known as CRADA's are contractual instruments authorized by the Federal Technology Transfer Act (FTTA) of 1986 to facilitate cooperation and technology transfer between government research scientists and individual firms. The patent provisions of FTFA are a major incentive to the firms that participate. Under a CRADA, ARS does not provide any financial assistance to the

private-sector partner but can receive such funds or other forms of material research support in exchange for an up-front commitment to grant an exclusive license to the individual cooperator for any patent arising from the cooperative research.

Question. What is the role of patents and CRADA's in getting ARS research utilized?

Answer. When the results of ARS research are directly useable by farmers, ranchers, or consumers, delivery of the information is achieved through USDA outreach agencies like the Extension Service, Soil Conservation Service, Human Nutrition Information Service, and the National Agricultural Library. However, much of ARS research results requires further development, manufacturing and marketing before the benefits are available to ultimate users. In this case, CRADA's and patents are tools through which ARS scientists can work directly with private companies to transfer technology from their research to the industrial firm. For subsequent stages in commercialization under PL96-517, ARS can exclusively license a patent to a private-sector firm so as to protect their investments in the additional research and development needed to achieve commercialization of a product or other technology.

Question. How does the ARS implementation of CRADA's compare with similar activities by other Federal research agencies?

Answer. All Federal research agencies are authorized to implement CRADA's. An interagency Technology Transfer Working Group led by the Department of Commerce provides a mechanism for coordination and comparison to maintain reasonable consistency throughout government. As a result of the USDA tradition of technology transfer through the Extension Service and the industrial cooperation charter of the regional research centers, ARS was able to develop cooperative programs when the Federal Technology Transfer Act was passed in 1986. We implemented the very first CRADA in government--with a venture capital firm in Research Triangle, North Carolina, for in ovo vaccination of eggs for broiler production--and ARS and the Forest Service together have made USDA the leader among all Federal Departments in the total number of CRADA's negotiated, over 350 to date.

Question. The fiscal year 1994 request includes \$24.6 million for ARS facility improvements. This funding is requested to correct health and safety code violations and to modernize facilities. Would you please identify the health and safety code violations which now exist at each ARS research facility and the funding required to correct these deficiencies. In addition, please identify, in priority order, the modernization projects planned at each ARS facility and the amount of funding required to complete each of these projects.

Answer. The fiscal year 1994 request includes \$24.6 million for ARS facility improvements. This funding is requested to correct health and safety code violations and to modernize

facilities. ARS is aware that due to age, many of our facilities are no longer in compliance with current health and safety codes and standards. The extent of non-compliance varies, and the number and scope of these items are too numerous to list but involve such things as laboratory ventilation, fire separation between areas, means of egress, sprinklers, etc. In addition, much of our building infrastructure has exceeded its life expectancy and is becoming more difficult to maintain. To maximize the cost effectiveness of the facility modernization program ARS is combining the repairs to the facilities and the correction of the safety and health concerns into one modernization effort. These costs are so intermingled it is not possible to accurately separate the two. At the present time ARS has a listing of 127 locations requiring \$834 million for the repair of facility HVAC systems, building safety repairs, handicap accessibility, roofing replacement, laboratory fumehood replacement, electrical system repair, asbestos removal, site work and drainage repair, and building code violations. The priority order of major modernization projects are as follows:

<u>Location</u>	<u>Estimated Cost to Complete</u>
Beltsville, Maryland	\$ 138 million
Albany, California	33 million
New Orleans, Louisiana	20 million
Peoria, Illinois	70 million
Plum Island, New York	90 million
Wyndmoor, Pennsylvania	42 million
Gainesville, Florida	12 million
Weslaco, Texas	17 million
Ames, Iowa	80 million
Manhattan, Kansas	7 million
East Lansing, Michigan	15 million

#### DEMONSTRATION EROSION CONTROL (DEC) PROJECT

Question: I understand that the ARS and the U.S. Army Corps of Engineers are working together on the Demonstration Erosion Control (DEC) Project. ARS has committed itself to increased cooperation and involvement if funded. What would it take to make ARS a full playing partner in the DEC project?

Answer: It is correct that ARS is working with the U.S. Army Corps of Engineers and SCS on the DEC project. Originally, ARS was to participate in research, monitoring, and evaluation of six DEC watersheds. More recently, ARS was asked to help in studying 15 watersheds for which construction funding is available. ARS work on additional watersheds needs to start prior to Corps construction in order to establish base line data, but funding currently available does not permit that expansion.

As reported in H.R. Report 102-555, entitled Energy and Water Development Appropriations Bill, 1993, we estimate that \$1.2 million per annum is required for the next 10 years to carry out this responsibility, as agreed among the three agencies.

## QUESTIONS SUBMITTED BY SENATOR SPECTER

### COMPOSTING RESEARCH

Question: As you know, the Pennsylvania State University and Rodale Institute Research Center of Pennsylvania have embarked on a joint venture in research and education activities. I would like to express my appreciation for your support of the Penn State/Rodale Center for Sustainable Agriculture and Natural Resources in Urbanized Environments (SANRUE). Your past support has assisted in the development of a program that has recently attracted a \$1 million grant from the Kellogg Foundation to develop a "model" Regional Infrastructure for Sustainable Agriculture in southeastern Pennsylvania. Your continued support is critical to ensure the program's continued success. Has the Department, specifically the Agricultural Research Service, ever conducted research on the feasibility of co-composting of municipal and farm wastes? If so, briefly describe each project conducted in the last five years.

Answer: From 1972 through 1983, ARS conducted co-composting studies in which municipal sewage sludge was composted with straw, peanut shells, and other carbon-rich rural-waste products including wood chips. All of these co-composts were found technically feasible.

During the last 5 years, studies on co-composting have been conducted cooperatively by ARS and the Rodale Institute Research Center at Kutztown, Pennsylvania. Co-composts processed included poultry litter with leaves; poultry litter with wood chips or newspaper; poultry litter, leaves, cafeteria paper wastes, and Novon, a biodegradable starch based plastic; dairy manure, with newspaper bedding; and leaves. These and other co-composts are being studied in compost utilization trials along with traditional animal manure composts and chemical fertilization to evaluate their effects on soils, nutrient cycling, plant growth, and food quality.

Studies on field composting were also conducted during 1991 and 1992 at Auburn, Alabama, where waste paper and poultry manure were mixed, and applied to soil as surface applications and in trenches. Rates of decomposition and nutrient release were monitored and substantial increases in water use efficiency and cotton yields were achieved where the mixture was used.

Question: If funding was available for co-composting in rural and urban areas, what research projects would you suggest and why?

Answer: We suggest that existing co-composting studies be expanded to include the agricultural, municipal, and industrial wastes which have elements needed by soils and plants. These studies would provide guidelines for the most beneficial mixtures of wastes and processes for stabilizing nitrogen and other potentially volatile and obnoxious compounds to keep them in the solid state until they can be absorbed in the soil and used by microorganisms and plants. Time, temperatures, and aeration



required to eliminate pathogenic organisms from the composts would be determined. Chemistry, biology, and management necessary to buffer concentrations of heavy metals and other micronutrients at concentrations where they will be beneficial or benign and not toxic would be determined. Potentials for inoculating stabilized composts with organisms which can serve to control plant disease organisms in soils, in a manner similar to the use of antibiotics in human disease control, should be investigated. Ways to incorporate desired earthworm species into stabilized composts should also be developed.

Completion of these studies would help allow rural areas adjacent to urban and industrial centers to convert wastes into composts with added values which would reduce costs of waste disposal, improve our soils and their productivity, improve the quality of our food and the environment, and bring about cycling of nutrients which will contribute to the enhancement of agriculture and improved quality of the environment.

#### REGIONAL RESEARCH LABORATORIES

Question. In the past few years there have been budget requests by the Administration for modernization of several of the Regional Research Laboratories under the Agriculture Research Service. What is the status of facilities at the Eastern Regional Research Center (ERRC) in Wyndmoor, Pennsylvania? Please provide me with the following specific matters relating to ERRC: program areas of emphasis and deemphasis; the age of the facilities; a list of the major renovations at the facility in the past five years; the funds spent annually to improve the facility over the past five years; and, resources necessary to bring the facility up to current standards for research.

Answer. Areas of emphasis at ERRC include development of new and improved dairy products, such as, low-fat cheese; technologies to improve cost efficiencies in ethanol production; technologies to assure microbial safety of meat and dairy products including irradiation; environmentally acceptable technologies for processing of hides and wool; conversion of fats, lipids, pectin, and lactose to value-added products; and quality maintenance in fruits and vegetables. The area of deemphasis currently being considered is research on the regulatory mechanisms in plant nutrient uptake.

The Eastern Regional Research Center was constructed in 1939. As part of an ongoing repair-maintenance and alteration-improvement program, major renovations accomplished in the last five years include repair of the electrical distribution system; roof insulation; removal of asbestos; upgrade of roads and sidewalks; repair of the fire alarm system; installation of energy efficient windows; and replacement of boilers, fuel tanks, the main electrical transformer, absorption chillers, heating, ventilation and air conditioning controls and cooling coils, air compressors, and underground service utilities systems. We also renovated the Microbial Food Safety Laboratory and other needed improvements in individual laboratories.

The funds spent to improve the facility in recent years were \$1.5 million in 1988, \$2.0 million in 1989, \$1.3 million in 1990, \$1.3 million in 1991 and \$3.0 million in 1992. A Facility Condition Survey is presently underway at ERRC to identify building code, safety, and performance limitations which must be corrected to meet today's building requirements for scientific research. We have not conducted engineering studies which would be required to develop an accurate estimate of the cost to bring the facility into compliance with current standards and codes. However, based on experience at the other regional centers and a general assessment of the conditions at ERRC, the cost to bring this 54 year old research center up to current standards would be in the range of \$35 to \$50 million.

#### UNIVERSITY PARK RESEARCH LABORATORY

Question: What is the status of the Agricultural Research Service's facilities at University Park, Pennsylvania? Please provide me with the specific areas of emphasis and de-emphasis for ARS programs at the campus and the resources necessary to bring the University facilities up to current standards for research.

Answer: The Agricultural Research Service's facilities at University Park, Pennsylvania, were constructed in 1935, and no longer provide modern up-to-date laboratory and office facilities for the research program. The Pennsylvania State University and ARS have discussed the feasibility of ARS using Penn State laboratories and greenhouses at the new Penn State Agronomy building. Office and administrative functions of ARS would be consolidated into the existing ARS building, along with some limited laboratory facilities. Alterations needed to convert the existing ARS building to these uses are estimated to cost \$2.5 to \$3.0 million.

For a number of years, the ARS research program at University Park has emphasized pasture management and watershed management as separate programs. We are changing the ARS program at University Park to emphasize agricultural land use management alternatives and their impact on surface and subsurface water quality in the northeastern United States. In the near term, intensive pasture management will be the principal land use practice studied because the dairy industry is such an important component of northeastern agriculture, and intensive grazing offers a means of cutting farm operating costs. Water quality research will focus on controlling nitrate and phosphorus losses from intensively managed pastures to groundwater and stream flow. The main concern in the northeast is nitrate pollution of groundwater, and its movement into estuaries such as the Chesapeake Bay. A growing concern is phosphorus loss from farmland and its impact on freshwater lakes. Areas deemphasized will be plant physiology and grass breeding.

## COOPERATIVE STATE RESEARCH SERVICE

## QUESTIONS SUBMITTED BY SENATOR BUMPERS

## EXPERIMENTAL PROGRAM TO STIMULATE COMPETITIVE RESEARCH

Question: Please provide a list of the USDA-EPSCoR states for 1993.

Answer: The USDA-EPSCoR states for 1993 are: Alaska, Arkansas, Connecticut, Delaware, Hawaii, Idaho, Maine, Mississippi, Montana, New Hampshire, New Mexico, North Dakota, Rhode Island, South Carolina, South Dakota, Vermont, West Virginia and Wyoming.

Question: Do you expect any change in that group for 1994?

Answer: USDA-EPSCoR States are defined as States whose funding ranks in the lower 33rd percentile, based on a three year rolling average of funding by the CSRS NRICGP and the Competitive Research Grants Program, which was subsumed by the NRICGP. We will be re-evaluating the list of EPSCoR states for 1994 but do not anticipate a major change.

Question: Has USDA signed a memorandum of understanding with the National Science Foundation establishing a coordinating mechanism between the USDA-EPSCoR program and the NSF-EPSCoR program? If not, when do you anticipate such a memorandum will be signed?

Answer: The memorandum of understanding between the National Science Foundation and the USDA establishing a coordinating mechanism between the USDA-EPSCoR program and the NSF-EPSCoR program has not yet been signed. It is currently being reviewed by the USDA Office of General Counsel and we anticipate that the memorandum will be signed after that review has been completed.

Question: What is the role of the state EPSCoR committees in the USDA-EPSCoR program?

Answer: A major advantage of the USDA Strengthening program is that all Seed, Standard Strengthening, Career Enhancement, and Equipment proposals are reviewed by a national panel of scientific experts. A comprehensive critique is prepared including a complete set of reviews and sent to each principal investigator on every proposal submitted outlining the strengths and weaknesses of the proposal. This level of constructive review by top scientists is unique and is one of the best training mechanisms to develop competencies in competing for research grants not available by any other means. These reviews and summaries provide applicants with invaluable suggestions, advice and technical information.

The purpose of the USDA EPSCoR program is to increase the amount of agricultural research at academic institutions within a set of states which have had limited success obtaining research funds from the USDA in a competitive process. To ensure that the USDA EPSCoR-like program addresses the mission of USDA, proposals must relate to the research program areas of the National Research

Initiative Competitive Grants Program which address what have been identified as the critical issues facing agriculture today. USDA allows all academic institutions within a USDA EPSCoR State to apply to the Strengthening Awards Program thus allowing the widest participation of institutions in addressing agricultural problems. USDA has identified a set of USDA EPSCoR States based upon their success in obtaining competitive research grants from USDA. The USDA EPSCoR-like program has chosen to target funds to alleviate impediments that limit research capacity of individuals and institutions in USDA EPSCoR States. These include providing funds for: sabbatical leaves in order to provide an opportunity for faculty to enhance their research capabilities Career Enhancement Awards; the purchase of research equipment to strengthen the research capacity of institutions Equipment Grants; experimentation to collect preliminary data in preparation for applying for a standard research project Seed Grants; and standard research projects Standard Strengthening Grants. The USDA EPSCoR-like program was initiated in FY 1992. Although only in its second year, it has been very positively received by the USDA EPSCoR States. NRICGP funding to USDA EPSCoR-States in FY 1992 increased 87 percent when compared to FY 1991. Some USDA-EPSCoR States saw a 6- to 14-fold increase in funding from the NRICGP.

Question: Please provide a geographical distribution of the following awards for the last two years showing the state, entity, and funding level:

1. Post doctoral fellowships
2. New Investigator Awards
3. Strengthening awards, including a sub-category distribution for the following:
  - a. Career enhancement awards
  - b. Equipment grants
  - c. Seed grants
  - d. Standard strengthening awards

Answer: {The information follows:}

**POSTDOCTORAL FELLOWSHIPS: FY 1991 AND FY 1992**

Awards are made to an individual or through an institution to anyone who has recently received or will soon receive a doctoral degree and who has made arrangements with an established investigator with regard to all necessary facilities and space for conduct of research. The research should initiate the individual's independent program, rather than supplement or augment research programs in the laboratory of the established investigator.

**California: \$764,406**

University of California, Davis	\$125,000
An Individual Awardee	\$ 70,000
An Individual Awardee	\$ 84,300
An Individual Awardee	\$ 90,374
An Individual Awardee	\$ 70,000
An Individual Awardee	\$ 70,000
An Individual Awardee	\$ 66,732
Scripps Research Institute	\$118,000
USDA Forest Service	\$ 70,000



Georgia: \$70,000	
An Individual Awardee	\$ 70,000
Illinois: \$70,000	
University of Illinois	\$ 70,000
Kentucky: \$226,366	
University of Kentucky	\$226,366
Massachusetts: \$227,400	
Harvard University	\$ 58,000
An Individual Awardee	\$ 86,400
An Individual Awardee	\$ 83,000
Maryland: \$70,000	
An Individual Awardee	\$ 70,000
Michigan: \$70,000	
Michigan State University	\$ 70,000
Minnesota: \$72,500	
University of Minnesota	\$ 72,500
Missouri: \$168,000	
Monsanto Agricultural Company	\$168,000
North Carolina: \$227,400	
An Individual Awardee	\$ 82,400
Duke University Medical Center	\$ 70,000
North Carolina State University	\$ 75,000
Nebraska: \$68,100	
An Individual Awardee	\$ 68,100
New Hampshire: \$60,000	
Dartmouth College	\$ 60,000
Ohio: \$113,900	
Ohio State University	\$ 48,000
Miami University	\$ 65,900
Oregon: \$143,737	
Oregon State University	\$143,737
Pennsylvania: \$70,000	
Pennsylvania State University	\$ 70,000
Tennessee: \$50,000	
University of Tennessee	\$ 50,000
Texas: \$153,000	
An Individual Awardee	\$ 90,000
An Individual Awardee	\$ 63,000

NEW INVESTIGATORS: FY 1991 AND FY 1992

Awards are made to investigators or co-investigators who have completed graduate or post-doctoral training, are beginning their independent research careers, and do not have an extensive research publication research. All individuals who have not received competitively-awarded Federal research funds beyond the level of pre- or postdoctoral research awards, and who have less than five years of post-graduate research experience, are eligible for this award.

Alabama: \$220,000	
Auburn University	\$220,000
Arizona: \$752,000	
Arizona State University	\$110,000
University of Arizona	\$642,000
California: \$953,597	
University of California, Davis	\$396,842
Scripps Research Institute	\$ 69,000
Univ. of California, Los Angeles	\$ 60,000
San Francisco State University	\$117,755
Univ. of California, Santa Barbara	\$105,000
Palo Alto Medical Fdn. Res. Inst.	\$205,000
Colorado: \$77,000	
Colorado State University	\$ 77,000
Connecticut: \$108,000	
Yale University	\$108,000
District of Columbia: \$152,304	
Georgetown University	\$152,304
Florida: \$345,410	
University of Florida	\$345,410
Georgia: \$140,000	
University of Georgia	\$140,000
Hawaii: \$120,000	
University of Hawaii, Manoa	\$120,000
Illinois: \$381,601	
University of Illinois	\$381,601
Indiana: \$505,432	
Purdue University	\$505,432
Iowa: \$195,000	
Iowa State University	\$195,000
Kansas: \$315,000	
Kansas State University	\$315,000

Kentucky: \$457,000	
University of Kentucky	\$247,000
University of Louisville	\$210,000
Massachusetts: \$55,000	
Massachusetts General Hospital	\$ 55,000
Michigan: \$120,000	
Michigan State University	\$120,000
Minnesota: \$195,000	
University of Minnesota	\$195,000
Missouri: \$475,090	
University of Missouri	\$475,090
North Carolina: \$534,653	
Duke University	\$282,300
North Carolina State University	\$252,353
Nebraska: \$120,000	
University of Nebraska	\$120,000
New Jersey: \$120,000	
Rutgers, the State University	\$120,000
New York: \$105,000	
State Univ. of New York, Albany	\$105,000
Ohio: \$140,000	
Ohio State University	\$140,000
Oklahoma: \$283,000	
Oklahoma State University	\$283,000
Oregon: \$217,942	
Oregon State University	\$ 97,942
Reed Institute	\$120,000
Pennsylvania: \$80,000	
Drexel University	\$ 80,000
Tennessee: \$270,000	
University of Tennessee	\$270,000
Texas: \$445,000	
Texas A&M University	\$445,000
Utah: \$200,000	
Utah State University	\$200,000
Virginia: \$181,035	
VPI & State Univ.	\$181,035
Washington: \$106,000	
Washington State University	\$106,000

Wisconsin: \$739,790	
University of Wisconsin	\$739,790

STRENGTHENING AWARDS: FY 1992 - Program was initiated in FY 1992

Career Enhancement Awards

Hawaii: \$58,554	
University of Hawaii, Manoa	\$ 58,554
New Hampshire: \$24,111	
University of New Hampshire	\$ 24,111
North Carolina: \$71,902	
East Carolina University	\$ 71,902

Equipment Grants

Alaska: \$18,759	
University of Alaska, Fairbanks	\$ 18,759
Arkansas: \$12,091	
University of Arkansas	\$ 12,091
Idaho: \$39,174	
University of Idaho	\$ 39,174
Louisiana: \$10,880	
Southern Univ. and A&M College	\$ 10,880
Maine: \$5,331	
University of Maine	\$ 5,331
Mississippi: \$44,032	
Mississippi State University	\$ 30,132
University of Southern Mississippi	\$ 13,900
Montana: \$43,160	
Montana State University	\$ 43,160
New Mexico: \$61,147	
New Mexico State University	\$ 61,147
North Carolina: \$11,908	
Univ. of NC, Greensboro	\$ 11,908
North Dakota: \$102,446	
North Dakota State University	\$102,446
South Carolina: \$34,056	
University of South Carolina	\$ 34,056
South Dakota: \$55,500	
South Dakota State University	\$ 55,500
West Virginia: \$56,458	
West Virginia University	\$ 56,458



Seed Grants

Arkansas: \$145,010	
University of Arkansas	\$145,010
California: \$99,740	
Calif. Polytechnic State Univ.	\$ 49,740
Calif. State University, Hayward	\$ 50,000
Connecticut: \$95,992	
University of Connecticut	\$ 95,992
Georgia: \$49,992	
Mercer University	\$ 49,992
Idaho: \$99,410	
University of Idaho	\$ 99,410
Indiana: \$50,000	
Butler University	\$ 50,000
Iowa: \$49,539	
Cornell College	\$ 49,539
Maine: \$98,616	
Colby College	\$ 49,992
University of Maine	\$ 48,624
Michigan: \$49,973	
Central Michigan University	\$ 49,973
Mississippi: \$199,992	
Mississippi State University	\$ 99,992
Univ. of Mississippi Med. Cntr.	\$ 50,000
University of Southern Mississippi	\$ 50,000
Montana: \$194,127	
Montana State University	\$194,127
New Mexico: \$248,728	
New Mexico State University	\$248,728
New York: \$199,780	
State Univ. of New York, Binghamton	\$ 50,000
State Univ. of New York, Brockport	\$ 49,780
Syracuse University	\$ 50,000
Wells College	\$ 50,000
North Carolina: \$99,148	
Univ. of North Carolina, Charlotte	\$ 99,148
North Dakota: \$149,778	
North Dakota State University	\$149,778
Pennsylvania: \$50,000	
Duquesne University	\$ 50,000

Rhode Island: \$81,296	
University of Rhode Island	\$ 81,296
South Carolina: \$145,295	
Clemson University	\$ 95,295
Med. Univ. of South Carolina	\$ 50,000
South Dakota: \$291,379	
South Dakota State University	\$291,379
Texas: \$100,000	
Prairie View A&M University	\$100,000
Vermont: \$41,950	
University of Vermont	\$ 41,950
West Virginia: \$49,929	
West Virginia University	\$ 49,929

Standard Strengthening Grants

Arkansas: \$359,151	
University of Arkansas	\$239,151
Univ. of Arkansas for Sciences	\$120,000
California: \$100,000	
Univ. of California, Riverside	\$100,000
Colorado: \$90,000	
University of Colorado	\$ 90,000
Connecticut: \$409,096	
Conn. Agricultural Exp. Station	\$172,500
University of Connecticut	\$236,596
Hawaii: \$332,000	
University of Hawaii	\$332,000
Idaho: \$306,351	
University of Idaho	\$306,351
Massachusetts: \$60,000	
Boston College	\$ 60,000
Maine: \$369,137	
University of Maine	\$369,137
Mississippi: \$200,000	
Mississippi State University	\$200,000
Montana: \$550,000	
Montana State University	\$450,000
University of Montana	\$100,000
North Carolina: \$231,703	
Univ. of NC, Greensboro	\$231,703

North Dakota: \$220,000	
North Dakota State University	\$220,000
New Hampshire: \$180,000	
University of New Hampshire	\$180,000
New Mexico: \$50,000	
New Mexico State University	\$ 50,000
New York: \$189,544	
State Univ. of New York, Albany	\$105,000
Vassar College	\$ 84,544
Ohio: \$100,000	
University of Dayton	\$100,000
Pennsylvania: \$110,000	
Swarthmore College	\$110,000
Rhode Island: \$180,000	
University of Rhode Island	\$180,000
South Carolina: \$453,032	
Clemson University	\$453,032
South Dakota: \$310,000	
South Dakota State University	\$310,000
Vermont: \$347,862	
University of Vermont	\$347,862
West Virginia: \$240,000	
West Virginia University	\$240,000
Wyoming: \$360,963	
University of Wyoming	\$360,963

#### BUILDINGS AND FACILITIES

Question: For each of the facilities funded in the 1993 act, or for which a report was requested, list the amount of funding made available to date, the total estimated cost of the facility, and the current status in terms of whether construction is ready to begin or has begun and whether additional funds could be used in 1994.

Answer: A table will be provided for the record. The information follows:

COOPERATIVE STATE RESEARCH SERVICE  
BUILDINGS AND FACILITIES PROJECTS

FACILITY AND LOCATION	TOTAL EST.		STATUS	POTENTIAL TO USE FY 1994 FUNDS FROM NON-FEDERAL SOURCES
	COST OF FACILITY (1) (5000)	FUNDING TO DATE (5000)		
Wellness Center WALLACE STATE COMMUNITY COLLEGE (Hanceville, Alabama)	2,000	0	Project undergoing merit evaluation	Unknown
Environmental Stress Laboratory UNIVERSITY OF ARIZONA (Tucson)	4,000	1,200	Design work underway	Construction funds
Livestock Research and Activity Complex UNIVERSITY OF ARKANSAS (Fayetteville)	4,000	0	Project undergoing merit evaluation	Unknown
Poultry Center for Excellence UNIVERSITY OF ARKANSAS (Fayetteville)	22,000	9,989	Design work complete	No additional funds required
Alternative Pest Control Containment and Quarantine Facility UNIVERSITY OF CALIFORNIA (Davis/River.)	35,000	385	Pre-design work underway	Additional design funds
Grape Importation and Clean Stock Facility UNIVERSITY OF CALIFORNIA (Davis)	6,515	3,216	Construction nearly complete	No additional funds required
Animal Reproduction and Biotechnology Laboratory COLORADO STATE UNIVERSITY (Ft. Collins)	6,658	0	Project undergoing merit evaluation	Unknown



FACILITY AND LOCATION	TOTAL EST. COST OF		FUNDING TO DATE (\$000)	STATUS	POTENTIAL TO USE FY 1994 FUNDS FROM NON-FEDERAL SOURCES	
	FACILITY(1) (\$000)					
Poultry Biocontainment Laboratory UNIVERSITY OF DELAWARE (NEWARK)	7,000		0	Report undergoing USDA clearance	Design funds	
Agricultural Biotechnology Institute UNIVERSITY OF FLORIDA (Alachua)	11,986		5,986	Design work complete	No additional funds required	
Center for Rural Health and Epidemiology GEORGIA SOUTHERN UNIVERSITY (Statesboro)	34,200		0	Project undergoing merit evaluation	Unknown	
Center for Advanced Water Technology SAVANNAH STATE COL. (Savannah, GA)	2,715		512	Design work underway	Construction funds	
Environmentally Sound Production Agriculture Laboratory UNIVERSITY OF GEORGIA (Tifton)	6,736		3,368	Design work underway	No additional funds required	
Vidalia Onion Storage Research Facility UNIVERSITY OF GEORGIA (Tifton)	838		419	Design work nearing completion	No additional funds required	
Center for Tropical and Subtropical Agriculture UNIVERSITY OF HAWAII (Manoa)	28,728		13,999	Design work ongoing	No additional funds required	
Biotechnology Facility UNIVERSITY OF IDAHO (Moscow)	12,153		1,521	Design work ongoing	Construction funds	

FACILITY AND LOCATION	TOTAL EST. COST OF FACILITY(1) (\$000)	FUNDING TO DATE (\$000)	STATUS	POTENTIAL TO USE FY 1994 FUNDS FROM NON-FEDERAL SOURCES	
Biotechnology Center NORTHWESTERN UNIV. (Evanston, IL)	24,400	1,117	Facility completed	Additional construction funds	
Indiana Institute for Molecular and Cellular Biology INDIANA UNIVERSITY (Bloomington)	12,810	6,405	Design phase underway	No additional funds required	
World Food and Agriculture Capitol WORLD AG. DEV. FOUND. (Des Moines, IA)	296,258	0	Not in mission of USDA	No funds recommended	
Plant Science Research Center KANSAS STATE UNIV. (Manhattan)	23,800	11,016	Construction underway	Final construction funds	
Further Processing Facility NORTHWESTERN STATE UNIVERSITY (Natchitoches, LA)	14,100	0	Project undergoing merit evaluation	Unknown	
Red Meat Processing Facility NORTHWESTERN STATE UNIVERSITY (Natchitoches, LA)	150	0	Project undergoing merit evaluation	Unknown	
Building Consolidation (Aroostook Farm) UNIVERSITY OF MAINE (Presque Isle)	3,704	926	Pre-design underway	No additional funds required	
Wood Processing Facilities UNIVERSITY OF MAINE (Orono)	2,300	0	Project undergoing merit evaluation	Unknown	

FACILITY AND LOCATION	TOTAL EST. COST OF FACILITY (1)		STATUS	POTENTIAL TO USE FY 1994 FUNDS FROM NON-FEDERAL SOURCES	
	(\$000)	TO DATE (\$000)			
Institute for Natural Resources and Environmental Science UNIV. OF MARYLAND (Statewide)	21,100	1,862	Pre-design underway	Construction funds	
Center for Hunger, Poverty, and Nutrition Policy TUFTS UNIVERSITY (Boston, MA)	28,272	1,046	Pre-design work ongoing	Construction funds	
Food Toxicology Center MICHIGAN STATE UNIV. (E. Lansing)	48,596	24,298	Design work underway	No additional funds required	
Biological Technology Center for Water and Wetlands Resources UNIVERSITY OF MISSISSIPPI (Oxford)	6,510	186	Program planning underway	Design funds	
Biosciences Research Center UNIVERSITY OF MISSOURI (Columbia)	57,456	0	Project undergoing merit evaluation	Unknown	
Meat Science and Safety Center UNIVERSITY OF MISSOURI (Columbia)	4,856	0	Project undergoing merit evaluation	Unknown	
Bioscience Research Center MONTANA STATE UNIVERSITY (Bozeman)	16,000	3,524	Design work underway	Additional construction funds	
Biochemistry and Biology Field Research Station UNIVERSITY OF NEVADA (Reno)	930	465	Pre-design work underway	No additional funds required	

FACILITY AND LOCATION	TOTAL EST. COST OF FACILITY(1) (\$000)	FUNDING TO DATE (\$000)	STATUS	POTENTIAL TO USE FY 1994 FUNDS FROM NON-FEDERAL SOURCES	
				Additional construction funds	Additional construction funds
Plant Science and Biotechnology Complex RUTGERS UNIV. (New Brunswick, NJ)	84,600	8,600	Construction underway		
Center for Arid Land Studies NEW MEXICO STATE UNIV. (Las Cruces)	20,000	0	Project undergoing merit evaluation		Unknown
Research Greenhouse Funds CORNELL UNIVERSITY (Ithaca, NY)	1,576	750	Construction underway		No additional funds required
Library/Herbarium NEW YORK BOT. GARDEN (Bronx)	26,000	5,047	Design work nearing completion		Construction funds
Center for Research on Human Nutrition and Chronic Disease Prevention WAKE FOREST UNIV. (Winston-Salem, NC)	99,577	8,362	Construction underway		No additional funds recommended
Institute for Agricultural and Human Resource Development MINOT STATE UNIV. (Minot, ND)	10,300	2,179	Design work underway		No additional funds recommended
Seed Research and Regulatory NORTH DAKOTA STATE UNIV. (Fargo)	2,000	931	Design work underway		Final construction funds
Food Processing Pilot Plant NORTHERN CROPS INST. (Fargo)	1,478	750	Project undergoing merit evaluation		Unknown



FACILITY AND LOCATION	TOTAL EST. COST OF FACILITY(1)		FUNDING TO DATE (\$000)	STATUS	POTENTIAL TO USE FY 1994 FUNDS FROM NON-FEDERAL SOURCES
	(\$000)	(\$000)			
Institute for Agricultural Health Science and Rural Medicine UNIV. OF NORTH DAKOTA (Grand Forks)	19,574		9,137	Construction underway	No additional funds required
Lake Erie Soil and Water Research and Education Center UNIVERSITY OF TOLEDO (Toledo, OH)	5,600		0	Project undergoing merit evaluation	Unknown
Plant Science Research Facility UNIVERSITY OF TOLEDO (Toledo, OH)	1,024		512	Design work underway	No additional funds required
Beef Cattle Research Facility OKLAHOMA STATE UNIV. (Stillwater)	1,500		0	Project undergoing merit evaluation	Unknown
Seafood Research Laboratory OREGON STATE UNIVERSITY (Astoria)	4,360		2,041	Design work started; site selection underway	Final construction funds
Center for Food Marketing ST. JOSEPH'S UNIV. (Phil., PA)	25,600		5,646	Design work underway	No additional funds recommended
Coastal Institute on Narragansett Bay UNIV. OF RHODE ISLAND (Kingston)	41,194		2,835	Design work underway	Additional construction funds
Northern Plains Biostress Lab. SOUTH DAKOTA ST. UNIV. (Brookings)	12,600		6,139	Construction underway	Final construction funds

FACILITY AND LOCATION	TOTAL EST. COST OF FACILITY(1)		STATUS	POTENTIAL TO USE FY 1994 FUNDS FROM NON-FEDERAL SOURCES	
	(\$000)	TO DATE (\$000)			
Horticulture Public Service Research and Education Center MIDDLE TENNESSEE STATE UNIV. (Murfreesboro)	574	0	Project undergoing merit evaluation	Unknown	
Nursery Crop Research Station TENNESSEE STATE UNIV. (McMinnville)	3,400	1,288	Design work underway	Final construction funds	
Agricultural, Biological and Environ. Research Complex UNIV. OF TENNESSEE (Knoxville)	38,500	1,722	Design work underway	Construction funds	
Center for Southern Crop Improvement TEXAS A&M UNIVERSITY (College Station)	14,106	0	Report undergoing USDA clearance	Design funds	
Institute of Biosciences and Tech. TEXAS A&M UNIVERSITY (HOUSTON)	25,000	12,472	Construction complete	No additional funds required	
Biotechnology Laboratory UTAH STATE UNIVERSITY (Logan)	7,113	1,702	Construction underway	Additional construction funds	
Agricultural Biotechnology Facility VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIV. (Blacksburg)	9,000	3,081	Site changed; Re-design work underway	Additional construction funds	
Animal Disease Biotechnology WASHINGTON STATE UNIV. (Pullman)	50,762	5,588	Design work ongoing	Additional construction funds	

FACILITY AND LOCATION	TOTAL EST. COST OF FACILITY(1) (\$000)	FUNDING TO DATE (\$000)	STATUS	POTENTIAL TO USE FY 1994 FUNDS FROM NON-FEDERAL SOURCES
Agricultural Biotechnology and Genetics Facility UNIVERSITY OF WISCONSIN (Madison)	27,745	12,796	Ready to award construction contract	No additional funds required
Natural Resources Building (Addition and Remodeling) UNIV. OF WISCONSIN (Stevens Point)	9,650	86	Pre-design underway	Additional design funds
Environmental Simulation Facility UNIV. OF WYOMING (Laramie)	18,863	931	Pre-design nearly complete	Design/ Construction funds
TOTAL	1,300,957	183,842		

(1) Includes Federal and non-Federal shares.

## NATIONAL RESEARCH INITIATIVE

**Question:** Please provide a summary of the geographical distribution of the competitive research grants for the last two years showing the State, entity, and funding level.

**Answer:** The information follows.

National Research Initiative Competitive Grants  
Fiscal Years 1991 and 1992 Recipients  
(In Dollars)

State/Recipient -----	Fiscal Year 1991 Actual -----	Fiscal Year 1992 Actual -----
<b>ALASKA</b>		
University of Alaska, Fairbanks .....	0	\$18,759
<b>ALABAMA</b>		
Auburn University .....	\$787,383	792,380
University of Alabama, Birmingham .....	180,000	0
University of South Alabama .....	130,000	0
<b>ARIZONA</b>		
University of Arizona .....	1,484,445	2,187,147
Arizona State University .....	200,000	240,000
Northern Arizona University .....	180,000	399,160
<b>ARKANSAS</b>		
University of Arkansas .....	79,000	506,252
University of Arkansas for Medical Sciences, Little Rock .	0	120,000
<b>CALIFORNIA</b>		
University of California, Davis .....	3,620,993	6,336,712
University of California, Berkeley .....	909,000	1,654,400
San Diego State University .....	0	100,000
San Francisco State University .....	117,755	170,167
University of California, Santa Barbara .....	105,000	180,000
University of California, San Diego .....	75,000	390,000
University of California, San Francisco .....	0	240,000
University of California, Santa Cruz .....	92,000	10,000
University of California, Riverside .....	1,103,392	1,380,000
University of California, Los Angeles .....	335,000	115,000
University of California, Irvine .....	210,000	0
Rancho Santa Ana Botanic Garden .....	0	210,000
Palo Alto Medical Foundation .....	205,000	0
Research Institute of Scripps Clinic .....	118,000	69,000
The Salk Institute for Biological Studies .....	208,000	0
Stanford University .....	140,000	0
Beckman Research Institute of the City of Hope .....	0	150,000
California State University, Hayward .....	0	50,000
California Polytechnic State University .....	0	49,740
California Institute of Biological Research .....	100,000	0
Keith D. Allen .....	0	70,000
Elena del Campillo .....	0	93,000
Daniel F. Ortiz .....	0	84,300
David M. Speiser .....	90,374	0
Gary F. Peter .....	70,000	0
Tammy M. Sakanashi .....	66,732	0
Nancy M. Kerk .....	70,000	0
Forest Service, Pacific SW Forest & Range Exp. Station ...	70,000	0
USDA, ARS Pacific West Area .....	845,000	295,044



State/Recipient	Fiscal Year 1991 Actual	Fiscal Year 1992 Actual
<b>COLORADO</b>		
Colorado State University .....	623,346	1,520,342
University of Colorado, Colorado Springs .....	0	90,000
University of Colorado Health Sciences Center, Denver ....	0	148,401
USDA, ARS Northern Plains Area .....	120,000	149,000
<b>CONNECTICUT</b>		
Connecticut Agricultural Experiment Station .....	66,000	172,500
University of Connecticut, Storrs .....	0	432,588
Yale University .....	0	328,000
<b>DELAWARE</b>		
University of Delaware .....	302,000	250,000
E. I. DuPont de Nemours & Company .....	150,000	0
<b>DISTRICT OF COLUMBIA</b>		
Georgetown University .....	152,304	180,000
USDA, ERS, ARED .....	0	134,091
Carnegie Institution of Washington .....	100,000	0
<b>FLORIDA</b>		
Florida State University .....	0	120,000
University of Florida .....	1,796,410	2,470,065
University of South Florida .....	80,000	125,000
<b>GEORGIA</b>		
University of Georgia, Athens .....	955,895	2,205,561
USDA, ARS South Atlantic Area .....	669,496	750,000
Mercer University .....	0	49,992
Institute of Paper Science & Technology .....	0	102,000
Emory University .....	270,000	0
Margaret T. Hoey .....	70,000	0
<b>HAWAII</b>		
University of Hawaii .....	180,000	516,754
<b>IDAHO</b>		
University of Idaho .....	624,593	494,935
<b>ILLINOIS</b>		
Illinois State University .....	100,000	200,000
Loyola University of Chicago .....	0	107,925
Northern Illinois University .....	0	120,000
Southern Illinois University .....	75,000	0
Northwestern University .....	340,000	50,000
University of Illinois, Chicago .....	0	65,000
University of Illinois, Urbana .....	1,694,309	3,321,485
University of Chicago .....	227,043	0
Northwestern University .....	0	0
John D. Kirby .....	67,000	0
USDA, ARS Mid-West Area .....	629,221	938,500
<b>INDIANA</b>		
Butler University .....	0	50,000
Indiana University .....	0	45,979
Purdue University .....	1,316,242	2,269,491
Fort Wayne State Development Center .....	125,558	0
<b>IOWA</b>		
Iowa State University .....	1,415,000	1,795,926
University of Iowa .....	498,962	412,000
University of Northern Iowa .....	105,000	0
Cornell College .....	0	49,539
Botanical Society of America .....	0	2,000

State/Recipient -----	Fiscal Year 1991 Actual	Fiscal Year 1992 Actual
<b>KANSAS</b>		
Kansas State University .....	853,374	1,273,995
University of Kansas Medical Center, Kansas City .....	0	6,005
<b>KENTUCKY</b>		
University of Louisville .....	0	210,000
University of Kentucky .....	774,528	734,174
<b>LOUISIANA</b>		
Louisiana State University & A&M College .....	832,098	412,000
Louisiana State University Medical Center, Shreveport ....	0	200,000
Southern University and A&M College, Baton Rouge .....	0	10,880
USDA, Forest Service Southern Forest Experiment Station ..	81,000	150,000
<b>MAINE</b>		
University of Maine .....	234,500	483,092
Colby College .....	0	49,992
<b>MARYLAND</b>		
University of Maryland, College Park .....	650,000	665,663
University of Maryland, Baltimore .....	165,000	0
Johns Hopkins University .....	199,121	0
Uniformed Service University of the Health Sciences .....	0	140,000
American Society of Plant Physiologists .....	6,000	0
American Society for Cell Biology .....	0	12,500
USDA, ARS Beltsville Area .....	692,000	588,000
Advanced Bioscience Lab, Inc. ....	0	100,000
Carol A. Auer .....	70,000	0
<b>MASSACHUSETTS</b>		
University of Massachusetts .....	196,000	429,000
Boston College .....	0	60,000
Boston University .....	0	140,000
Tufts University .....	350,000	453,105
Harvard University .....	275,000	338,000
Massachusetts General Hospital .....	405,000	325,000
Northeastern University .....	200,000	0
Brandeis University .....	270,000	0
Thomas A. Green .....	83,000	0
Lawrence J. Zwiebel .....	0	86,400
<b>MICHIGAN</b>		
Central Michigan University .....	0	49,973
Michigan State University .....	2,087,590	2,148,040
Michigan Technological University .....	0	295,000
University of Michigan .....	120,060	844,167
<b>MINNESOTA</b>		
University of Minnesota .....	1,270,370	1,730,350
Carleton College .....	90,000	0
USDA, Forest Service North Central Forest Exp. Station ...	100,000	0
<b>MISSISSIPPI</b>		
Mississippi State University .....	225,000	455,124
University of Southern Mississippi .....	51,000	63,900
University of Mississippi Medical Center .....	0	50,000
USDA, ARS Mid-South Area .....	5,000	0
<b>MISSOURI</b>		
University of Missouri .....	1,253,094	2,315,697
Washington University .....	480,000	520,000
Northeast Missouri State University .....	67,505	0
Monsanto Agricultural Company .....	0	168,000

State/Recipient	Fiscal Year 1991 Actual	Fiscal Year 1992 Actual
<b>MONTANA</b>		
Montana State University .....	495,000	687,287
University of Montana .....	106,000	220,000
<b>NEBRASKA</b>		
University of Nebraska .....	482,677	1,175,414
Harlen J. Howard .....	68,100	0
<b>NEVADA</b>		
University of Nevada .....	451,000	0
<b>NEW HAMPSHIRE</b>		
University of New Hampshire .....	0	204,111
Dartmouth College .....	185,900	180,000
<b>NEW JERSEY</b>		
Rutgers, The State University .....	834,186	1,606,900
University of Medicine and Dentistry of New Jersey .....	250,000	0
<b>NEW MEXICO</b>		
New Mexico State University .....	82,000	459,875
<b>NEW YORK</b>		
Cornell University .....	4,142,457	3,714,021
State University of New York, Albany .....	805,000	654,780
State University of New York, Buffalo .....	500,300	10,000
State University of New York, College of Environmental Science and Forestry, Syracuse .....	209,000	0
University of Rochester .....	140,000	200,000
Boyce Thompson Institute .....	817,000	360,000
Rensselaer Polytechnic .....	40,000	100,000
Cold Spring Harbor Lab .....	285,000	138,000
Syracuse University .....	0	275,000
New York University .....	0	2,000
Vassar College .....	0	84,544
State University of Binghamton .....	0	50,000
Wells College .....	0	50,000
<b>NORTH CAROLINA</b>		
North Carolina State University .....	1,736,628	2,232,525
University of North Carolina, Greensboro .....	93,000	243,611
University of North Carolina, Chapel Hill .....	362,000	239,560
Bowman Gray School of Medicine at Wake Forest University .	0	200,000
Duke University .....	297,000	409,300
East Carolina University .....	0	71,902
James D. Bever .....	0	82,400
<b>NORTH DAKOTA</b>		
North Dakota State University .....	170,000	472,224
<b>OHIO</b>		
Ohio State University .....	1,131,000	1,485,984
Ohio University .....	170,000	200,000
Case Western Reserve University .....	380,000	96,000
University of Dayton .....	0	100,000
Miami University .....	294,900	102,000
Bowling Green State University .....	0	110,000
Children's Hospital Medical Center .....	0	186,839
University of Cincinnati College of Medicine .....	206,000	0
<b>OKLAHOMA</b>		
Oklahoma State University .....	453,000	976,159
University of Oklahoma .....	120,000	110,000

State/Recipient	Fiscal Year 1991 Actual	Fiscal Year 1992 Actual
OREGON		
Oregon State University .....	1,129,439	2,387,029
Reed College .....	0	120,000
University of Oregon .....	95,000	0
PENNSYLVANIA		
Pennsylvania State University .....	1,276,833	735,970
Duquesne University .....	0	50,000
University of Pennsylvania .....	60,000	515,000
USDA, ARS North Atlantic Area .....	130,000	225,000
University of Pittsburg .....	0	185,000
Swarthmore College .....	0	110,000
Drexel University .....	80,000	0
Forest Service, Northeastern Forest Exp. Station .....	140,000	0
RHODE ISLAND		
Gordon Research Conference .....	52,960	22,600
University of Rhode Island .....	0	261,296
Brown University .....	190,000	0
SOUTH CAROLINA		
University of South Carolina .....	123,941	34,056
Clemson University .....	339,276	548,327
Medical University of South Carolina .....	0	265,000
SOUTH DAKOTA		
South Dakota State University .....	156,854	656,879
TENNESSEE		
Vanderbilt University .....	0	5,000
University of Tennessee, Knoxville .....	672,000	1,732,913
East Tennessee State University .....	100,000	0
Memphis State University .....	185,000	0
TEXAS		
Texas Tech University .....	214,000	366,248
University of Texas, Austin .....	267,445	398,000
University of Texas Health Science Center .....	322,000	130,000
Southwest Texas State University .....	0	170,000
Baylor College of Medicine .....	215,000	100,000
Rice University .....	120,000	280,000
Prairie View A&M University .....	0	100,000
University of Texas Southwestern Medical Center at Dallas .....	0	520,000
Texas A&M Research Foundation .....	2,126,723	3,304,842
USDA, ARS Southern Plains Area .....	205,000	0
Steven Roy Evett .....	90,000	0
Vaughan H. Lee .....	63,000	0
UTAH		
Utah State University .....	431,203	613,500
University of Utah .....	0	600,000
VERMONT		
University of Vermont .....	383,000	389,812
VIRGINIA		
Virginia Polytechnic Institute & State University .....	590,000	844,165
University of Virginia .....	100,000	0
WASHINGTON		
Washington State University .....	1,698,544	835,000
University of Washington .....	915,000	1,004,200
WEST VIRGINIA		
West Virginia University .....	313,634	444,387



State/Recipient -----	Fiscal Year 1991 Actual	Fiscal Year 1992 Actual
WISCONSIN		
University of Wisconsin, Madison .....	3,701,207	4,436,535
Forest Service, Forest Products Laboratory .....	0	710,000
Marquette University .....	0	100,000
Medical College of Wisconsin .....	290,000	0
WYOMING		
University of Wyoming .....	688,100	360,963
Subtotal .....	69,204,000	92,138,350
Federal administration (4%) .....	2,920,000	3,900,000
Small Business Act .....	876,000	1,170,000
Biotechnology Risk Assessment .....	0	291,650
Total .....	73,000,000	97,500,000

#### NATIONAL RESEARCH INITIATIVE

Question: What amount of the competitive research grants in 1993 is going toward forestry research? What is proposed for 1994?

Answer: It is estimated that funding from the National Research Initiative of \$9.5 million in 1993 and \$10.5 million in 1994 will support forestry research.

#### ALTERNATIVE AGRICULTURAL PRODUCTS

Question: How much funding in 1993 and 1994 is for research on new nonfood, nonfeed alternative agricultural products?

Answer: It is estimated that \$10.2 million in fiscal year 1993 and \$12.9 million in fiscal year 1994 will support research on new nonfood, nonfeed alternative agricultural products.

Question: How much funding in 1993 and 1994 is for the promotion and commercialization of new nonfood, nonfeed alternative agricultural products?

Answer: In fiscal year 1993, it is estimated that \$0.5 million supports generic pre-commercial research of new nonfood, nonfeed alternative agricultural products. Programs for crambe/rapeseed --oilseeds-- and guayule --natural rubber, resins-- are in place for breeding/genetics/agronomy and for generic pre-commercial processing technology and product development. For fiscal year 1994, the budget estimate includes \$3.0 million for an applied research program for uses of vegetable oils that provide materials of strategic and industrial importance. The latter activity constitutes CSRS participation in the Federal Coordinating Council for Science, Engineering, and Technology --FCCSET-- Advanced Materials Program crosscut, a Presidential Initiative for development of advanced products and processes.

## SPECIAL RESEARCH GRANTS

Question: For the following grants, please provide the location or locations of the research and the amount provided in 1993 to each location.

Answer: The information follows:

<u>Grants/Recipients</u>	<u>FY 1993</u>
<u>Alternative Cropping Systems</u>	
Clemson University	\$262,477
<u>Aquaculture (General)</u>	298,356
To be awarded competitively but recipients not yet selected	
<u>Barley Gene Mapping</u>	
Washington State University	388,995
<u>Beef Carcass Evaluation and Identification</u>	
University of Georgia Research Foundation	13,681
Iowa State University	13,681
University of Illinois	132,050
Texas A&M Research Foundation	<u>38,862</u>
Total	198,274
<u>Chesapeake Bay Aquaculture</u>	
University of Maryland	412,599
<u>Dogwood Anthracnose</u>	
University of Tennessee	129,350
<u>Farm and Rural Business Finance</u>	
University of Arkansas	Distribution not yet
University of Illinois	determined
Total	<u>118,020</u>
<u>Fish Marketing</u>	
Oregon State University	160,507
University of Rhode Island	<u>160,508</u>
Total	321,015
<u>Food Safety Consortium</u>	
University of Arkansas	872,324
Iowa State University	480,620
Kansas State University	<u>480,620</u>
Total	1,833,564
<u>Forestry Marketing</u>	
University of Vermont	47,208
<u>Global Change</u>	
Colorado State University	1,888,325

Great Plains Agricultural Policy Center

Kansas State University	47,208
Oklahoma State University	<u>47,208</u>
Total	94,416

Integrated Pest Management

Auburn University	226,500
University of Arkansas	344,378
University of California	83,125
Colorado State University	29,000
University of Florida	226,044
University of Georgia Research Foundation	87,950
University of Hawaii	41,000
University of Idaho	40,000
Iowa State University	124,104
Purdue University	10,000
Kansas State University	149,068
University of Kentucky	95,711
Louisiana State University	66,932
University of Maryland	124,879
University of Massachusetts	47,703
University of Maine	124,325
Michigan State University	74,010
Mississippi State University	89,200
University of Minnesota	74,850
Cornell University	488,160
Ohio State University Research Foundation	196,169
Oregon State University	112,921
Pennsylvania State University	41,987
Texas A&M Research Foundation	119,967
University of Vermont	3,000
University of Wisconsin-Madison	262,548
University of Wyoming	50,500
To be awarded	<u>874,102</u>
Total	4,208,133

Livestock and Dairy Policy

Cornell University	165,230
Texas A&M Research Foundation	<u>330,455</u>
Total	495,685

Midwest Biotechnology Consortium

Purdue University	2,705,026
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Minor Use Animal Drugs

University of California-Davis	87,018
University of Florida	90,019
Michigan State University	174,036
Cornell University	<u>87,018</u>
Total	438,091

National Biological Impact Assessment Program

Virginia Polytechnic Institute & State Univ.	283,249
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Oregon-Massachusetts Biotechnology

University of Massachusetts	241,706
(Name changed to Massachusetts Biotechnology in 1993)	

Pesticide Clearance

University of California-Davis	660,914
University of Florida	660,914
Michigan State University	660,914
Rutgers, The State University	660,913
Cornell University	<u>660,914</u>
Total	3,304,569

Pesticide Impact Assessment

University of Alaska	5,000
Auburn University	8,381
University of Arkansas	12,860
University of Arizona	7,066
University of California-Davis	464,381
University of Connecticut	5,638
University of District of Columbia	5,000
University of Florida	14,540
University of Georgia Research Foundation	451,026
University of Guam	5,000
University of Hawaii	5,645
Iowa State University	21,787
University of Idaho	7,367
Purdue University	12,771
Kansas State University	11,216
University of Kentucky	6,824
Louisiana State University and A&M College	9,533
University of Massachusetts	5,257
University of Maryland	5,799
University of Maine	5,785
Michigan State University	10,075
University of Minnesota	15,140
University of Missouri	11,573
Mississippi State University	12,577
Montana State University	6,422
North Carolina State University	13,025
North Dakota State University	7,774
University of Nebraska	14,787
University of New Hampshire	5,000
Rutgers, The State University	6,257
New Mexico State University	5,320
University of Nevada	5,000
Cornell University	10,915
Ohio State University Research Foundation	448,325
Oklahoma State University	8,595
Oregon State University	7,356
Pennsylvania State University	435,166
University of Puerto Rico	5,320
University of Rhode Island	5,000
Clemson University	8,489
South Dakota State University	7,203
University of Tennessee	8,142
Texas A&M Research Foundation	19,451
Utah State University	5,030
Virginia Polytechnic Institute & State Univ.	8,518
University of Vermont	5,000
Washington State University	9,948
University of Wisconsin-Madison	11,491
West Virginia University	5,000



Pesticide Impact Assessment (Continued)

University of Wyoming	5,000
To be awarded	<u>604,500</u>
Total	2,802,275

Potato Research

University of Idaho	191,501
University of Maine	263,312
University of Maryland	18,537
Michigan State University	191,634
North Dakota State University	191,501
Cornell University	57,450
Oregon State University	191,987
Pennsylvania State University	57,450
Washington State University	<u>191,501</u>
Total	1,354,873

Red River Corridor

University of Minnesota	188,833
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Regionalized Implications of Farm Programs

University of Missouri	135,236
Texas A&M Research Foundation	<u>193,333</u>
Total	328,569

Rural Development Centers

Iowa State University	94,416
Mississippi State University	94,416
North Dakota State University	94,416
Oregon State University	94,416
Pennsylvania State University	<u>94,417</u>
Total	472,081

Rural Policies Institute

University of Arkansas	Distribution not yet determined
University of Missouri	
University of Nebraska	
Total	<u>653,360</u>

Russian Wheat Aphid

University of California, Oakland	81,680
Oregon State University	82,730
Washington State University	<u>248,189</u>
Total	412,599

Safflower Research

Montana State University	118,021
North Dakota State University	<u>118,020</u>
Total	236,041

Small Fruit Research

University of Idaho	14,125
Oregon State University	86,513
Washington State University	<u>75,920</u>
Total	176,558

Southwest Consortium for Plant Genetics & Water

New Mexico State University	377,665
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STEEP II

University of Idaho	308,427
Oregon State University	308,426
Washington State University	<u>308,426</u>
Total	925,279

Sunflower Insects

North Dakota State University	141,625
South Dakota State University	<u>47,208</u>
Total	188,833

TCK Smut

University of Idaho	40,235
Montana State University	40,257
Oregon State University	63,893
Utah State University	28,397
Washington State University	<u>63,259</u>
Total	236,041

Tropical and Subtropical Research

University of Florida	62,985
University of Hawaii	45,020
University of Puerto Rico	254,800
University of Virgin Islands	180,104
To be awarded	<u>2,591,711</u>
Total	3,134,620

Water Quality

	8,450,255
To be awarded competitively but recipients not yet selected	

Wood Utilization

University of Maine	616,478
Michigan State University	841,901
Mississippi State University	897,458
North Carolina State University	325,000
State University of New York at Albany	90,000
Oregon State University	897,458
Pennsylvania State University	100,000
West Virginia University	55,996
To be awarded	<u>96,817</u>
Total	3,921,108

World Food Systems

Purdue University	100,000
Ohio State University Research Foundation	<u>247,452</u>
Total	347,452

## SPECIAL RESEARCH GRANTS

Question: Why do you propose that funding for certain programs such as global change, energy biomass/biofuels, water quality and the others you propose be funded through special research grants instead of competitive research grants?

Answer: The Special Research Grants program concentrates on problems of national interest beyond the normal emphasis in the formula programs through directed programs. This program is

necessary to assure that needed specifically focused areas of agricultural research are addressed, especially those applied research areas that result in immediate application of the findings. Some of these programs are awarded competitively yet the research to be supported is more specifically targeted and directed than that conducted under the National Research Initiative --NRI-- Competitive Grants program. The competitively awarded NRI is designed to engage the Nation's top scientific talent, from all sources, to develop the fundamental foundation and background necessary in the solution of priority agricultural problems.

#### GEOGRAPHIC INFORMATION SYSTEM

Question: We asked CSRS to evaluate the activities of the Geographic Information System National Office and report to this committee. Have you made the evaluation?

Answer: We have made the evaluation and a draft report is currently under review.

Question: What does it show?

Answer: The projects carried out by the National Center for Resource Innovations, including those of the "National Office" continue to stimulate the diffusion of this technology to state and local governments. In addition, the following observations were reported:

1. Co-location of the "National Office" and the Chesapeake project continue to make it difficult to evaluate the performance of the "National Office" as an entity.
2. The cost of the "National Office" and some of the project sites seem to be higher than they should be.
3. Effectiveness of the "National Office" will be enhanced by the changes proposed by the Board of Directors such as the distribution of national office functions to the sites.
4. The development of a strategic plan is essential. Progress is being made toward this goal, but needs to be much more rapid.
5. The coordination of the work of the various sites to meet the goals of the, as yet incomplete, strategic plan is imperative.

However, it is difficult to visualize how the many benefits that have been forthcoming from the project could have been achieved without the "National Office." The National Center for Resource Innovations could serve more effectively in the accomplishments of the goals envisioned by Congress if the "National Office" had functioned more as an administrative office. At the same time, it would have been impossible for the "National Office" to function in this role and to have achieved through the Chesapeake site what seem to be important milestones. Thus, the movement by the Board of Directors to play a more active role in ensuring that the

problems noted are solved is welcomed. Other consortia of this type have had similar growing pains.

#### AQUACULTURE CENTERS

Question: Concern has been expressed that aquaculture funding going to the regional centers becomes too fragmented because it is distributed to many universities within the region. How do you respond to this statement?

Answer: The Regional Aquaculture Centers are organized to take advantage of the best aquaculture science, education skills, and facilities in each region.

Selected projects address industry needs that cannot be addressed by a single institution and are of importance to aquaculture development throughout the region. In all cases, institutions involved in projects must demonstrate a capacity to perform the work.

Generally, such projects require more personnel, equipment, and facilities than are available in any one State or territory, and they can be organized and conducted more effectively and efficiently on a regional level.

Total annual funding for each Center is approximately \$750,000, to cover multiple states and territories. For example, the Southern Regional Aquaculture Center covers 13 states and two territories. An inevitable result of a regional, team approach to projects is that the funding available to individual participating institutions is limited. However, substantial matching resources committed by participating institutions and the collaboration among the regional project team members results in considerable leveraging of Center funds and regional expertise. In addition, teams organized to tackle Center projects are strongly encouraged to seek additional, extramural sources of support.

Question: What is the process for making use of, or allocating, the money in the regions?

Answer: The process followed by the Southern Regional Aquaculture Center is described here. The process is essentially the same for all five Regional Aquaculture Centers.

Research and extension proposals are developed by the Work Group method. This procedure begins with recommendation of priority needs by an Industry Advisory Council and Technical Committee and subsequent selection of specific needs by the Center's Board of Directors. Once an area of work has been selected, a Steering Committee, comprised of research, extension and industry representatives, and an Administrative Advisor are appointed by the Board. This committee prepares a definitive Problem Statement for the priority need under consideration. After Board approval, announcements of an Ad Hoc Work Group meeting to address issues defined in the Problem Statement are sent to potential participating institutions and individuals identified by the Steering Committee; extension and research directors of 1862 and 1890 Land-Grant Universities; and Sea Grant and other



institutions, agencies and organizations within the Southern Region.

Ad Hoc Work Group participants have an opportunity to make appropriate suggestions relative to development of research and extension procedures to address Problem Statement objectives and to express their interest and capabilities in participating. The Steering Committee uses this and other relevant information to prepare a proposal. Proposals are reviewed by the Steering Committee, Technical Committee, and the Industry Advisory Council, and designated peer reviewers, prior to submission to the Board. Approved proposals become active projects funded by the Southern Regional Aquaculture Center.

There is broad-based representation for both research and extension inputs, with scientists from all states and territories in the Southern Region having participated in Southern Regional Aquaculture Center-funded projects.

#### ANIMAL HEALTH AND DISEASE

Question: You propose to delete funding for the animal health and disease program. This is a formula program that benefits every state and is allocated to the states based on the value and income of livestock and poultry production. While you propose an increase in the other formula programs, you eliminate this one. Why?

Answer: CSRS supports the activities that have been funded under the formula animal health and disease program and believes it can be maintained with the proposed budget for fiscal year 1994. The \$5 million increase in the Animal Systems component of the National Research Initiative --NRI-- will provide support for some of the research currently being done under this formula program, especially research most closely tied to national priorities. NRI funds can be better targeted to meet high priority national issues.

Question: In Arkansas, for example, the program provided more than \$83 thousand in 1993. The increase you propose in the Hatch Act--for Arkansas it would be just over \$56 thousand--is not even enough to make up this loss. Won't the combination of these two programs mean a net loss for many land-grant institutions and agricultural experiment stations?

Answer: While loss of these specific funds may cause some concern by the recipient institutions, the increase proposed for the Hatch Act program will partially offset this; and a substantial increase is proposed for the NRI Competitive Grants Program with a significant part going to animal research. We appreciate the importance of this area of research and will continue to focus on issues of national concern related to animal health and disease.

Question: How will we make up for the loss of this livestock and poultry research?

Answer: One opportunity for additional funding for Arkansas and others would be for faculty to submit grants to the National Research Initiative Competitive Grants Program. This is a

competitive grants program whereby proposals can be submitted for review by a peer panel. Proposals can be submitted in the following areas: Natural Resources and the Environment; Nutrition, Food Quality and Health; Animal Systems; Plant Systems; Markets, Trade; and Policy and Processing for Adding Value or Developing New Products.

Decisions on the allocation of Hatch funds to support individual research projects are made at the university level. A second option for increasing funding for animal health and disease research would be for the University to reallocate funds between programs. If animal health and disease research were rated as the highest priority, then this area could receive proportionately more funding than other research areas. CSRS funds currently account for only 15 percent of all research funding at State Agricultural Experiment Station and other cooperating institutions. Other sources of funding such as State appropriations, product sales, and industry could help make up this loss of \$5.5 million.

#### NATIONAL RESEARCH INITIATIVE

Question: In your statement, you indicated considerable interest in the National Research Initiative stating that in 1992 over 2,900 proposals were submitted requesting about \$597 million. You were only able to fund about 15 percent of the requests. In 1991, I believe you were able to fund about 25 percent of proposals. Has the demand for these funds actually been increasing in the recent past?

Answer: Demand for competitive grants has increased since the commencement of the National Research Initiative in 1991. In 1990 prior to the NRI, 1,771 proposals were received and 385 funded -- success rate of 22 percent. In 1991, with the onset of the NRI, 2,713 proposals were received and 590 funded -- success rate of 22 percent-- and in 1992 2,911 proposals received and 777 funded --27 percent success. The 1992 success rate is elevated somewhat because of the introduction of the Strengthening Program which supported a large number of applicants with small awards. However, the number of proposals in the standard programs increased as well. As the NRI has grown, the number and types of programs available has grown as well, creating new avenues of support for agricultural researchers and disciplines never before supported by competitive grants in the USDA. It is expected that this trend will continue as anticipated growth in the NRI occurs.

Question: What would you say about the quality of the proposals? Is it increasing also?

Answer: The quality of the proposals in every program has increased dramatically in the recent years. A consistent theme among the Program Officers is the recognition that research quality is on the rise, to the extent that many highly meritorious proposals cannot be funded. In general, approximately 50 percent of the proposals could be funded without sacrifice to scientific quality. The percentage of highly meritorious proposals left unfunded increases each year as the programs continue because applicants receive constructive critiques and improve their proposals when they resubmit them. The advent of the NRI also has

provided opportunity for highly competent scientists from non-land-grant universities to initiate agricultural research programs because of exciting new opportunities to apply advances in biotechnology and other technologies.

Question: What are you doing to broaden the field of successful applicants? In particular, how are you promoting the use of this program in smaller states and smaller colleges and universities?

Answer: In order to broaden the field of successful applicants, the Request for Proposals --RFP-- for the National Research Initiative Competitive Grants Program is as widely distributed as possible. In addition, workshops that describe the program and instruct on grant writing have been held in smaller states and smaller colleges and universities. These would include locations such as Mississippi State University, University of Idaho, Texas A&I University, Langston University, New Mexico Highland University, North Carolina A&T University, University of Arkansas, Kentucky State University, University of New Hampshire, University of Rhode Island, University of Connecticut, University of Delaware, South Carolina State University, Clemson University, University of South Carolina, University of Alaska, Texas Women's University, and the University of Hawaii.

#### COMPETITIVE RESEARCH GRANTS

Question: There seems to be somewhat of a push and pull between competitive research grants and special research grants. Congress has not increased competitive grants as much as requested but has maintained special research grants when they've been slated for elimination. It has come to my attention that when the recipients of special research grants are urged to apply for competitive research grants they respond that program is unavailable to them. They claim the competitive grants are aimed at basic research--more on the molecular level while what they need is research directed at applying new technology, methods, or applications in the field. Are you familiar with this criticism and how do you respond?

Answer: We are aware of the criticism. However, the NRI supports both fundamental and mission-oriented research in a broad range of research topics involving basic and applied studies. Programs are available which support mission-oriented research designed to address practical needs in agriculture and natural resource management. Specific programs include research in integrated pest management, biological control, plant breeding, animal well-being, human nutrition, rural development, markets and trade, soils, natural resources assessment, wildlife and ecosystem interactions, water quality, processing for adding value, food safety, and nutrition education. Although molecular biology is an important component of a portion of the programs in the NRI, it is not the only component. Recipients of special grants are welcomed to apply to the NRI programs that are appropriate avenues of support for their research but which does not represent duplication of effort.



Question: A further complaint of the competitive program is that it tends to perpetuate itself at institutions that were recipients in the past. In other words, the funds have been used to develop programs, obtain equipment, and gain expertise that makes the institution that much more eligible for another grant in the future. As a result, it is difficult for newcomers to break in. How do you respond?

Answer: Receiving a NRI grant or other financial support for research may aid an investigator's, and consequently their home institution's, competitiveness in future years because support enables the investigator to collect preliminary data or purchase equipment needed to pursue research. Realizing this, the NRI has developed a number of programs that will improve the competitiveness of newcomers to the competitive arena. Three programs, the Postdoctoral Fellowship program, the New Investigator program, and the Strengthening program, all have set aside funds available to eligible individuals. The goal of all these programs is to allow researchers who would otherwise find it difficult to attain a competitive grant to do so. These new programs are providing funds to investigators who are just beginning their research careers and to investigators in states or institutions that are generally less successful in obtaining USDA competitive grants. In addition, workshops that describe the program and instruct on grant writing have been held in smaller states and smaller colleges and universities.

#### SPECIAL RESEARCH GRANTS

Question: Under the new authority for special research grants, you do make grants to all colleges and universities. Special research grant participants do not have to be land-institutions. Is that correct?

Answer: There are two categories of special research grants as authorized by section 2(c)(1) of the Act of August 4, 1965 -- 7 U.S.C. 450i(c). Grants under section 2(c)(1)(A) are to facilitate or expand promising breakthroughs. Grants under section 2(c)(1)(B) are to facilitate or expand ongoing State-Federal food and agricultural research programs that promote excellence, promote the development of regional centers, promote the research partnership, or facilitate coordination and cooperation among States.

Implementation of section 2(c)(1) has been carried out by assigning all national, competitively awarded special research grants to section 2(c)(1)(A) and all other special research grants, which are traditionally grants earmarked by Congress to specific institutions, to section 2(c)(1)(B). Section 2(c)(1)(A) has a broader list of eligible institutions, including all colleges and universities, other research organizations, Federal agencies, private organizations or corporations, and individuals, than does section 2(c)(1)(B), which limits eligible recipients to land-grant colleges and universities, forestry schools, and schools of veterinary medicine. When Congress does earmark special research grants to an institution other than those specified in section 2(c)(1)(B) then the grant can be awarded to the land-grant university in the respective State and then sub-contracted to the specific institution. If the grant is awarded competitively, then all universities and others may compete.



## QUESTION SUBMITTED BY SENATOR JOHNSTON

## LOUISIANA PROJECTS

Question: Last year, the statement of managers on the FY 1993 Agriculture appropriations conference report directed the Department to undertake a feasibility study of undertaking certain renovations at the red meat processing facility located at Northwestern State University in Natchitoches and of constructing a larger fish processing facility along the Red River. Both of these projects would enable the development of significant value-added agricultural processing facilities in the economically depressed central portion of Louisiana, which has been hard hit by the closure of England Air Force Base. Can you give me some indication of the status of these two studies and when they may be submitted to the Congress?

Answer: Staff from the Cooperative State Research Service have planned a site visit to Louisiana for May 18 and 19, 1993. Upon completion of the site visit, a report will be prepared. Copies of the report will be forwarded to the Senate Appropriations Subcommittee on Agriculture, Rural Development and Related Agencies.

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 QUESTIONS SUBMITTED BY SENATOR COCHRAN

## SAFETY OF THE FOOD SUPPLY

Question: The recent outbreak of illness from contaminated meat has raised questions about the safety of our food supply. USDA has indicated that visual inspection cannot detect pathogenic bacteria and that additional research is necessary to find ways to improve our current inspection capabilities. What research has already been done on pathogenic bacteria which might have immediate application? What additional research is required in this area?

Answer: Besides research which resulted in the Food Safety and Inspection Service approval for use of irradiation on poultry carcasses and organic acid sprays on cattle and swine carcasses, our ability to detect and control food-borne pathogens continues to improve. We are also improving our knowledge regarding the epidemiology and points of contamination and control for these pathogens and their mechanisms of toxicity. Research needs to continue in these areas as well as on how to apply new technologies to a national inspection system. The efficacy of irradiation and other technologies in controlling pathogens will need further evaluation. Research will be needed to assure that new foods and new food technologies do not open new avenues for food poisonings. The primary objective of the food safety program under the National Research Initiative is to increase our understanding of the disease-causing microorganisms that contaminate food, with the goal of decreasing food-borne illnesses. Proposals are solicited for research on the mechanisms of microbial pathogenesis in humans and control of food-borne microorganisms. Proposals may address either

pre- or post-harvest origin of the microbial agent. In addition, the Agricultural Research Service is pursuing food safety research to address priority needs of FSIS for scientific information.

#### COORDINATION OF RESEARCH

Question: How does the USDA coordinate research planned or underway between the ARS and the CSRS to achieve efficiencies and avoid duplication of effort?

Answer: Coordination of research between CSRS and ARS is a high priority and we devote a great deal of attention to it. The process of coordination begins at the top with the national planning process. The Joint Council on Food and Agricultural Sciences was established by Congress to improve planning and coordination of research, extension and higher education related to the food and agricultural sciences. There are three groups under the Joint Council. One of these is the National Agricultural Research Committee which provides advice to the Joint Council on matters of research planning and coordination across all Federal agencies, including CSRS and ARS. The National Agricultural Research and Extension Users Advisory Board is another committee established by Congress to provide independent assessment of priorities for research, teaching and extension programs. Committee reports, while prepared for Congress, are useful in advancing cooperation and coordination of CSRS-State Agricultural Experiment Stations --SAES-- and ARS research.

We continue to work at improving coordination and there are many examples of joint planning, especially for cross cutting issues such as plant and animal genome mapping, global change, integrated pest management, national agricultural pesticide impact assessment program, minor use pesticide and drug registration, water quality, and biotechnology risk assessment program. In addition, CSRS works with SAES and ARS scientists in the planning, developing, and implementing of regional research projects that address critical regional and national issues. Through the review process, CSRS encourages SAES to integrate CSRS supported programs with appropriate ARS scientists/programs, especially those at the same or nearby locations. Many ARS scientists are located on university campuses and conduct joint research with state scientists. ARS scientists often serve on review panels for review of programs receiving CSRS funds. CSRS-ARS joint reviews have been conducted on programs jointly supported. CSRS manages the Current Research Information System database which keeps track of all research projects supported by CSRS and ARS. This data base is available to all scientists and represents one of the most important means of avoiding duplication of effort.

To summarize, there is a healthy dialogue between CSRS and ARS at all levels and there are many points where formal and/or informal coordination is taking place. We are dedicated to strengthening that process.

## INVESTMENT PROGRAM

Question: Funding for the investment program proposed in the President's fiscal year 1994 budget will require this Committee to find offsets within existing program resources if it is to comply with the cap on total discretionary spending. Investments totaling \$47 million are proposed for USDA science and education programs, including \$7 million for the ARS, \$39 million for the CSRS for National Research Initiative competitive grants and forestry research, and \$1 million for the Extension Service.

What priority do you give these proposed investments if they must be funded at the expense of funding requested for other ongoing USDA research and education activities?

Answer: The total CSRS 1994 budget request of \$431,407,000, which includes a \$39 million investment package, is still almost \$1.6 million below the CSRS 1993 appropriation of \$432,993,000. In addition, no funding is being requested in 1994 for the CSRS Buildings and Facilities account which was funded at \$52,101,000 in 1993 for a total net decrease in funds available to CSRS of \$53,687,000. Keeping with the Administration's policy of awarding research grants through a competitive, peer-reviewed process no additional Federal funding is being proposed in 1994 for earmarked special research grants or buildings and facilities. The investment proposals are a high priority that can be supported in lieu of CSRS programs that are proposed for elimination by the Administration. Some of the issues being addressed through special research grants which are proposed for elimination in the 1994 budget request could be funded through discretionary formula funds or could be submitted for consideration to the National Research Initiative which would be increased by \$30 million under the CSRS investment package proposal.

## NATIONAL RESEARCH INITIATIVE

Question: The fiscal year 1994 budget seeks to strengthen funding for research through the National Research Initiative (NRI) Competitive Grants Program. Could you please tell us how members of the peer review panel are selected and what is done to assure that members of the panel have expertise in the area or discipline of the projects being reviewed for funding?

Answer: Members of the National Research peer review panels are selected because they are active scientists, well respected for past and current contributions to their fields. These contributions include, but are not limited to, significant publications in peer reviewed journals and significant participation in teaching and training students. Often panelists have been invited speakers at national and international meetings; have served to organize such meetings; are editors and reviewers for scientific journals. It should be emphasized that the above qualifications are necessary, but not sufficient for a good panelist--fairness, skill in writing reviews that are useful to the panel and investigator and willingness to contribute long hours and hard work are also critical, as is concern and understanding of problems facing US agriculture in such areas as production, sustainability and environment. Each year, for each panel, a panel manager joins the office on a part time basis to work with the professional staff on

selecting the panel and to chair the panel meeting. The panel managers, who rotate each year, are also active scientists who generally have significant panel, editorial, and administrative experience. The panel managers, as active, respected and experienced scientists, make critical contributions to selection of panel, and assignment of proposals for panel and mail (outside or ad hoc) review.

Early in the fiscal year, before proposal deadlines, the staff program director and panel manager for a given panel draw up a slate of potential panelists who meet the stringent qualifications outlined above. Then the careful process begins to construct a panel with the projected necessary expertise and disciplines which ideally, as a whole, demonstrates fair geographic, institutional, age, position, gender and minority distribution. Efforts are also made to assure, if possible, some continuity in panel membership from previous years. Panel lists are then presented to the Chief Scientist and the Administrator of the Cooperative State Research Service for approval.

In order that panelists can plan for adding several weeks of intensive "volunteer" work to their already full schedules, potential panelists, or a core of panelists, are contacted as soon as possible in the fiscal year, often before the proposal deadline. However, after the deadline, if necessary, panel membership is adjusted to assure that members of the panel have expertise in the areas or disciplines of the proposals received. This may be done by completing the panel after deadlines, adding panelists as proposal number and unexpected changes in disciplines requires, or substituting panelists of required disciplines for panelists whose discipline may be less vital for the proposals received in the cycle.

Question: In carrying out the National Research Initiative, what oversight or control mechanisms exist over the process: The Congress is only notified of the awards made and given a summary of each funded research project. Are the review panels required to justify their decisions in writing, in terms of why a research project was either selected or not selected for funding?

Answer: Notification of Congress of awards made and submission to Congress of summaries of each funded research project is one of several oversight control mechanisms in the process of peer reviewing and evaluating proposals competing for funds.

Each proposal is read independently and a detailed written review prepared by two panel members. A third panel member may also read the proposal. In addition to the panel reviews, reviews from scientists who are not on the panel are solicited by program staff by mail. When the panel is convened, each proposal and its reviews are considered by the panel, allowing them to assess the relative merit of each proposal in terms of its potential as a good investment--for accomplishing its objectives with time and funds allotted, for providing information necessary and critical to the objectives of the program and for the goals of sustainable agricultural practice, information which will be widely published and available to the public in a timely fashion. After the proposals are all ranked and evaluated, and before the panel is



adjourned, a summary of the panel discussion and evaluation is prepared by the panel for each proposal. Each applicant to the program receives the panel summary and a complete set of reviews for the proposal submitted. In addition to the responsibility of providing applicants with justification for the relative ranking of research projects, these reviews and summaries often provide applicants with invaluable suggestions, advice and technical information. A complete record (panel summary, reviews, program recommendation, etc.) is filed in the office for each proposal.

After the panel has been adjourned, panel recommendations and justification for the relative ranking for funding are presented to the Chief Scientist. After this administrative approval, potential awardees are informed of the funding recommendation.

In addition to the Congressional Notification of Awards and summaries of awarded research sent forward to Congress, the lists of awards are published annually in the CSRS "Redbook".

Oversight and control also exists at the level of monitoring the progress and results of the funded research. After the awarded research begins, investigators are responsible for reporting research results to the USDA Current Research Information Service (CRIS), this information is made available to the public through the CRIS database; these reports must be approved by program directors. At the conclusion of the project investigators file termination reports which also must be approved and filed in CRIS. Most importantly, however, are the oversight and controls exercised by peer scientist reviewers when results are submitted for publication; and by the peer panelists who judge the quality and quantity of the research when proposals are submitted for competitive renewal. Results of awarded research are also reviewed when presented by staff to the administration and Congress for budget justification and to committees of scientists, administrators and users convened periodically to assess NRI programs.

Question: Dr. Jordan, you indicate in your prepared testimony that NRI has embarked on a mission to strengthen agricultural research at small and mid-sized institutions in states (defined as EPSCoR states) that have traditionally received less support from the competitive grants program. Could you please tell this Committee what progress you are making to strengthen agricultural research at these small and mid-sized institutions under the National Research Initiative. What percent of the total number of grants and available dollars have been awarded to institutions in EPSCoR states through the NRI?

Answer: The mission of the USDA EPSCoR-like program is to strengthen agricultural research at small and mid-sized to academic institutions in states that have traditionally received less support from the competitive grants program. USDA has identified a set of USDA EPSCoR States based upon their success in obtaining competitive research grants from USDA. The USDA EPSCoR-like program has chosen to target funds to alleviate impediments that limit research capacity of individuals and institutions in USDA EPSCoR States. These include providing funds for: sabbatical leaves in order to provide an opportunity for faculty to enhance their research capabilities -- Career Enhancement Awards; the purchase of research

equipment to strengthen the research capacity of institutions -- Equipment Grants; experimentation to collect preliminary data in preparation for applying for a standard research project -- Seed Grants; and standard research projects -- Standard Strengthening Grants. The USDA EPSCoR-like program was initiated in FY 1992. Although only in its second year, it has been very positively received by the USDA EPSCoR States. NRI funding to USDA EPSCoR-States in FY 1992 increased 87 percent when compared to FY 1991. Some USDA-EPSCoR States saw a 6- to 14-fold increase in funding from the NRICGP. Proposals submitted from USDA EPSCoR States represented 10 percent of the total number of proposals submitted to the NRI. USDA EPSCoR states were awarded 15 percent of the research grants and 10 percent of the total available dollars.

A major advantage of the USDA Strengthening program is that all Seed, Standard Strengthening, Career Enhancement, and Equipment proposals are reviewed by a national panel of scientific experts. A comprehensive critique is prepared including a complete set of reviews and sent to each principal investigator on every proposal submitted outlining the strengths and weaknesses of the proposal. This level of constructive review by top scientists is unique and is one of the best training mechanisms to develop competencies in competing for research grants not available by any other means. These reviews and summaries provide applicants with invaluable suggestions, advice and technical information.

## QUESTIONS SUBMITTED BY SENATOR GORTON

### BUDGET OBSERVATIONS

Question: I realize that this subcommittee will be operating on a tight budget this year -- and in the Administration's budget the CSRS building and facilities construction account is zeroed out (page 19 Budget Summary). Last year Conferees appropriated \$52.1 million for this account. I highlight this contrast because it seems to this Senator that by zeroing out this account the administration is not being realistic in its budget proposal. Many of these facilities -- like Washington State University -- have met their "state-match" requirements, and are in mid-construction. Do you think it is a good budgeting practice for the federal government to bail out on their share of the agreement this late in the game?

Answer. As you note, we are faced with difficult budget decisions. Given these constraints, our budget focuses on funding for the highest priority national interest research and higher education programs. We note that, nationwide, availability of research facilities has not been a limiting factor in supporting agricultural research. Indeed, our competitive research and higher education programs continue to receive far more proposals than can be funded. Therefore, we place the highest priority on funding for program efforts rather than facilities.

## ANIMAL DISEASE BIOTECHNOLOGY FACILITY

Question: As I have stated Washington State University (WSU) is in the process of constructing an Animal Disease and Biotechnology Facility (ADBF) as part of the CSRS program. While "state match" requirements have been fulfilled, the total federal contribution to date has been \$5.4 million. The federal funds required in order to begin construction this year is \$11.5 million. Are you aware that for every year that we parcel out only a portion of the federal funding for this facility that construction costs increase \$1.3 million each year? I suspect that many other CSRS facilities would be adding to their construction cost with the zeroing out of the building and facilities budget. One could argue that funding the construction of the WSU facility at \$11.5 million would be saving the federal government money over the long haul. Do you agree?

Answer: We recognize that, depending on conditions prevailing in the local construction market, costs for facility projects may increase over time. Given the need to focus Federal resources on the highest priority national interest programs, the CSRS budget does not propose funding for any university research facilities.

## E. COLI RESEARCH

Question: As you know, earlier this year, an E. coli epidemic broke out which took the lives of 3 and sickened nearly 400 residents in my state. As a result of this tragedy, national attention has focused on the need to reform our nation's food safety system. While undoubtedly many universities are conducting research on the E. coli bacteria and other food borne contaminants with formula funds or monies collected from the national research initiative, I am not aware of a specific -- or line itemed -- CSRS research proposal designed to study the E. coli bacteria. Is there any such line item?

Answer: There are several institutions that are involved in research related to E. coli using line item appropriations: 1) Under the Poultry Research Grant, The Food Safety and Quality Enhancement Laboratory, Department of Food Science and Technology, University of Georgia, is involved in a basic research project to understand the adhesion properties of E. coli 0157; 2) Using support from the Food Irradiation Grant, scientists at Iowa State University, Ames, Iowa are studying the effects of radiation on the control of food-borne pathogens, including E. coli; and 3) the Animal Science Food Safety Consortium has emphasized the need to develop rapid identification of microorganisms to evaluate risks and to determine effective intervention points. This will help reduce the hazards and improve the quality of animal food products.

CSRS supported research related to E. coli is also being conducted under the Hatch Act and the National Research Initiative -- NRI. Research supported under the NRI is studying the disease causing toxin of E. coli that may contaminate beef and dairy products as well as examining the factors that regulate enterotoxin production by E. coli with an emphasis on those factors associated with the host food animal. Work is also underway to improve the understanding of the way that the bacteria attach to the



gastro-intestinal tract and how they produce disease with the ultimate goal to develop a vaccine to prevent the infection of cattle.

Scientists within the State Agricultural Experiment Station System are utilizing Hatch Act formula funds to identify ways to control E. Coli and other pathogenic bacteria in foods. This includes research to: identify rapid and sensitive methods of detection; evaluate preservation techniques, including irradiation, to reduce pathogens in meat products; and control pathogens at critical control points during processing. Results from this research will improve the quality of animal products consumed by the American public.

Question: Washington State University has put together a research proposal which will take a look at the E. coli bacteria from "farm to table." I am impressed with the Secretary's willingness to tackle the difficult issue of food safety reform and believe that funding a separate E. coli research initiative to study this bacteria to be a vital component of an overall food safety reform initiative. I would be interested in your thoughts on this subject.

Answer: The research project at Washington State University currently uses Hatch formula funds to investigate food animal disease problems in the state. We believe very strongly that food safety issues need to be evaluated in the context of a total farm to table continuum. Recognizing the research needs in this area, our proposal for the National Research Initiative includes additional funds for food safety.

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## QUESTION SUBMITTED BY SENATOR HATFIELD

### RURAL DEVELOPMENT CENTERS

Question: Dr. Jordan, as you know, the four Regional Rural Development Centers were reviewed by the Extension Service and CSRS in 1991. Are you still pleased with the productivity of the Centers and are they contributing to your agency's priority issues of rural people and communities? I'd like to compliment you on finding the necessary funding in your budget request to continue this program at current services in fiscal year 1994. I know you share my enthusiasm for the program.

Answer: The 1991 review of the Regional Rural Development Centers had numerous recommendations for strengthening this program. One recommendation was for the on-site review of each Regional Center every five years. We have completed on-site reviews at the North Central Center in 1992 and the Northeast Center on May 11-12, 1993. The Western Center is scheduled for review in 1994, and the Southern Center in 1995.

The review reports completed to date conclude that the Centers are doing an excellent job considering the size of their staffs and the amount of their budgets. Of particular note is the fact that



the Centers attract between \$6 and \$8 of non-Federal rural development program funding for each dollar appropriated by the Congress. Thus we believe they are very good investments for research funding. The review reports are not without some criticisms. However, from the viewpoint of CSRS, most of these flow from the high level of demands and expectations for the Centers generated by their many clients and constituents.

CSRS continues to monitor and evaluate the research programs of the Centers in the attempt to help the Centers make as many of the recommended programmatic improvements as possible. We remain highly pleased with the progress of the Centers, and we look to them for increased leadership in new rural development efforts within the university research system that we serve.

EXTENSION SERVICE  
QUESTIONS SUBMITTED BY SENATOR BUMPERS

INDIAN RESERVATION AGENTS

For this year, \$1,750,000 was appropriated for Indian reservation agents.

Question. What requests, and in what amount have you had for these funds?

Answer. (The information follows:)

Project Renewals:

<u>REQUEST</u>	<u>AMOUNT</u>	<u>REQUEST</u>	<u>AMOUNT</u>
Alaska (Tanana)	81,647	New Mexico (Apache)	42,483
Arizona (San Carlos Apache)	18,571	North Carolina (Cherokee)	39,990
Arizona (Hopi)	41,303	North Dakota (Fl. Berthold)	85,000
Arizona (Colorado River)	49,051	Oklahoma (Creek)	17,500
Arizona (Tri-State Navajo)	54,264	Oregon (Warm Springs)	38,556
California (Hoopa)	75,560	South Dakota (Pine Ridge)	82,550
Idaho (Fl. Hall)	41,975	South Dakota (Rosebud)	28,900
Minnesota (Redlake)	48,000	Texas (Alabama/ Coughatta)	29,566
Montana (Blackfeet)	73,015	Washington (Chehalis)	82,000
Montana (Salish & Kootenai)	52,020	Wyoming (Wind River)	85,000
Montana (Fort Belknap)	83,325	Florida (Seminole)	No Cost Extension
Nebraska (Omaha/Winnebago)	49,705	New York (Cattaraugus)	No Cost Extension
Nevada (Washoe Shoshone & Paiute)	52,000		

New Proposals:

<u>REQUEST</u>	<u>AMOUNT</u>	<u>REQUEST</u>	<u>AMOUNT</u>
Arizona (Tri-State)	53,230	North Dakota (Fl. Totten)	9,800
Minnesota (White Earth)	70,000	New Mexico	35,993

Mississippi (Northern Cheyenne)	70,000	Oklahoma	45,000
Mississippi	43,713	Washington (Coleville)	44,808
		Washington	20,000
Total funded for FY 1993	\$1,610,000		

Question. What reservations did you reach and how many agents did you provide with 1992 funding? What is the outlook for 1993?

Answer. In 1992, the following agents were funded: Florida - Seminole; Montana - Flathead; Idaho - Ft. Hall; South Dakota - Rosebud; Oklahoma - Muskogee; Oregon - Warm Springs; Arizona - San Carlos; and Montana - Blackfeet. In 1992, additional short-term projects were funded at Texas; Minnesota - Red Lake; Nebraska - Omaha and Winnebago; New York - Cattaraugus; North Carolina - Cherokee; and Texas - Alabama/Coushatta Reservations.

Nine new projects will be funded in FY 93 for a total of \$418,500.

Question. Again this year you do not request any funding to continue this program. Do you believe the need for additional extension agents on Indian reservations can be met with Smith-Lever formula funds?

Answer. Yes, if states reorder current priorities for funding.

#### YOUTH AT RISK

Question. How many requests, and in what amount, have you had for these funds?

Answer. In 1991, we had 119 applications totalling approximately \$14 million. In 1992, we had 70 renewal applications and 82 applications for new projects. In 1993, 96 renewal applications were received and 15 applications for new projects.

In 1991, each State Extension Service was asked to submit up to three applications. Many States developed additional proposals and joined their proposals to three. Several Extension Directors have informed me that they would have preferred to submit additional applications. They had to turn down several quality applications before we conducted the USDA review.

Question. What is the current limit on the size of grants for individual applications?

Answer. We established a range of \$50,000 to \$150,000 for each of the community based projects. This range allowed the communities to tailor a project to meet their needs and specify what they were willing to commit to beginning this longer term process of developing strong community based prevention and intervention programs.

Question. What are the prospects for obtaining matching funds for \$12,000,000 proposed in 1994?

Answer. Considering our very positive responses experiences, I am optimistic. If additional funds are appropriated, we believe the Cooperative Extension System will expand its capacity to lead and manage youth and families at-risk programming. Communities are looking for Extension's partnership in bringing programs to at-risk youth and families. Matching provides an opportunity for local communities to bring their resources together collaboratively for a synergistic result. This is a primary strategy Extension believes is essential to develop State and community structures and programs necessary to make a difference with youth and their families.

Question. What has been the success rates for obtaining continued matching funds for the initial sites?

Answer. The actual requirement was for each project to be matched dollar-for-dollar or a 100% match. The Extension System in each State has responded by redirecting resources to support the youth at risk initiative. The local community response in providing a match has been substantial. The initial sites have continued to receive renewed funding with continued matching support.

In 1993, only one State had difficulty in finding the matching resources. The difficulty was not from lack of interest or commitment to these projects. The Cooperative Extension Service made every effort and was successful in making their match portion. I am confident our System is developing sound partnerships with other local and State collaborators to maintain the match during difficult economic times.

Question. Please provide a list of the applicants for the past two years showing the State, the requested funding level and the disposition of each application.

Answer. (The information follows:)

Fiscal Year 1992

State	Title	Requested Amount	Funded Amount
AK	4-H Yukon Fisheries Education and Youth Development Program	135,671.00	135,556.00
AK	Kuskokwim 4-H Fisheries and Youth Development Program	150,000.00	139,000.00
AL	Assess & Address: Meeting the Needs of High Risk Youth	91,254.00	71,500.00
AR	SAIL(Summer Adventures in Learning)	132,720.55	113,847.00
AZ	Phoenix Coalition for Youth and Families	150,000.00	104,077.00



CA	School Age Child Care Education	150,000.00	150,000.00
CA	4-H AM/PM Club - Chula Vista	150,000.00	125,000.00
CA	Reading and Science Literacy for At-Risk Youth	82,425.00	82,345.00
CO	Roots and Wings: Redirecting Highest Risk Youth	43,075.00	43,075.00
CT	New Britain/Slade Middle School After School Program	122,844.00	122,844.00
CT	Bridgeport R.I.S.E. (Respect and Integrity through Skills and Education)	149,850.00	104,383.00
CT	School-Age Child Care in Hartford, CT	150,000.00	140,000.00
CT	The New Haven SPACES Initiative	149,737.00	123,750.00
DE	Seaford Collaboration for Youth	73,887.00	65,820.00
DE	WCASA Community Partnerships	150,000.00	142,385.00
FL	Focus on the Future: Enhancing Literacy through Technology Education	88,646.00	83,300.00
GA	Calhoun/Gordon Co. Shuttle School	78,410.00	78,410.00
GA	Project KITE (Kid's in Tifton Enrichment)	150,000.00	145,219.00
HI	A.C.T. (Acting Collaboratively Together) to 'Act' to Decrease Youth at Risk	125,000.00	72,500.00
IA	Postville Child Care--A Rural Model for Before and After School Care	77,705.00	56,170.00
IA	Model City/Woodland Willkie LIT Prj.	149,934.00	149,934.00
IA	Community Parenting Coalition Targeting High Risk Youth	64,080.00	64,080.00
ID	School-Age Child Care and Parenting Resources (YAR)	150,000.00	99,000.00
ID	4-H Adventures Club	132,008.00	82,022.00
ID	After School Adventures & Mentoring Program	129,965.00	102,604.00
IL	Computer Assisted Learning	50,000.00	50,000.00
IL	YAR School Age Child Care and Parenting Education for Aledo, Sherrard & Westmer Unit School and Communities	50,062.00	50,051.00

IL	Youth at Risk School Age Child Care and Family Enrichment Program	90,536.00	90,118.00
IN	Space Station Indiana	74,953.00	56,433.00
KS	Responsive Educational Approach to Diversity	79,933.44	46,980.00
KS	Kids After School: Reno County, Kansas	88,282.19	80,000.00
KS	Caring and Collaborating for Youth, Kansas/Pottawatomie County	75,947.00	59,979.00
KY	Harlan Youth Employability Program	104,565.00	92,620.00
KY	Garrard County Child Care Program	150,000.00	79,990.00
LA	Horizon Program	135,858.00	101,200.00
MA	Youth at Risk Programming in Worcester County, Massachusetts	150,000.00	149,000.00
MD	4-H Adventure in Science	108,220.00	89,500.00
ME	Strategies for Developing School-Age Child Care in Rural Maine	91,290.00	56,229.00
MI	All for One: Pattengill Area Reading, Math & Science Literacy Coalition	91,386.90	74,796.00
MI	Literacy and Technology Literacy for Youth at Risk	150,000.00	150,000.00
MI	Say YES to Willow Run	85,376.00	83,744.00
MN	On the Move...For Minnesota Families	129,213.00	110,000.00
MN	Youth Issues Education	255,000.00	255,000.00
MN	Project FINE - Focus on Integrating Newcomers into Education	128,375.00	105,600.00
MO	4-H Summer Adventure Club	137,403.00	76,972.00
MO	Students Taking Academic Initiative for Reading Success(STAIRS)	102,300.00	92,300.00
MO	St. Joseph Youth Alliance: A Targeted Prevention/Intervention Coalition	137,690.00	132,875.00
MS	After School Child Care and Education	150,000.00	138,800.00
MS	4-H Project SOARS	81,960.00	80,000.00
MT	Native American Family	120,912.00	64,317.00

NC	Wayne County 4-H High Risk Programming in an After School Setting	149,612.00	140,935.00
ND	Rural School and Community Dev. Project	138,000.00	135,615.00
NE	13 Days - 13 Kids	95,010.00	95,010.00
NH	Youth Opportunities Unlimited: A Comprehensive School-Age Child Care Program	150,000.00	145,000.00
NJ	4-H After School Education in Newark Housing Complexes	149,132.00	85,024.00
NJ	Camden City Community Garden Prg. Youth-at-Risk Gardening Project	114,228.00	68,000.00
NJ	Bergen - Lafayette Upscale Project for Youth Ages 5-14	86,036.00	122,264.00
NM	From Roots to Wings	113,964.00	106,707.00
NV	Building Communities of Support for High-Risk Youth in Isolated Rural Nevada	135,913.00	114,925.00
NV	Choices and Challenges For Youth	118,800.00	87,000.00
NY	Rural Families Cooperative/After School Child Care Program	148,315.00	139,536.00
NY	"School's Out" SACC Program	149,022.00	135,568.00
NY	Making a Difference Program for Youth	115,065.00	111,325.00
OH	Cleveland Peer Volunteer Dev. Coalition	53,006.00	53,006.00
OH	Knox County After School Day-Care Prg.	58,339.00	44,929.00
OH	Athens County Coalition Enhancement	48,640.00	48,640.00
OH	Community Councils for Youth at Risk- -Clermont County	67,363.00	60,994.00
OK	Coalition for After School Care for High Risk Indian Youth	151,585.00	100,101.00
OK	Home Visitation Program for Adolescent Mothers	82,000.00	78,595.00
OR	Kid Konnection	102,300.00	92,300.00
OR	Youth Development in the Timber- Dependent Community of Mill City-Gates	124,954.00	116,199.00
PA	Youth Education Program in Coatesville	146,585.00	69,321.00
PR	Vieques Kids in Action for Science Educ.	81,958.00	70,000.00

RI	R.I. CE School Age Child Care Education	150,000.00	85,000.00
SC	CHOICES (Children Having Opportunities to Increase Chances for Education Success)	67,880.00	67,880.00
SD	After School Child Care	149,036.00	78,293.00
SD	Pine Ridge Youth Coalition and Center	89,230.00	70,365.00
TN	4-H B.E.S.T.--Building Esteem through Science and Technology	146,699.00	95,000.00
TX	4-H C.A.R.E.S. ) (Children at Risk Educational System	95,950.00	95,950.00
TX	The Rutabaga Project: 4-H School Age Literacy Education Program for Hispanic Youth	99,625.00	82,443.00
TX	Making the Grade, Victoria	89,975.00	83,722.00
TX	Partnerships: ROPES	149,963.00	115,000.00
UT	Project CARES (Children at Risk Extended School)	149,910.00	122,960.00
VA	Strong Families, Competent Kids/Caring Communities	89,592.00	64,000.00
VA	Science/Technological Literacy Education for High Risk Youth in Giles County	77,587.00	74,787.00
VA	Bailey's Community "Making the Grade" Project of Fairfax County, Virginia	86,032.00	86,000.00
VT	Growing Up at Risk: Enhancing Community Awareness	88,977.00	43,818.00
WA	Family Focus School Age Child Care Prj.	149,921.00	132,030.00
WA	Salishan Together for At Risk Youth (STAR Youth)	120,392.00	109,895.00
WA	High-Risk Youth Program - 4-H Challenge	107,202.00	107,202.00
WI	National Center for Action in Community Based Action Research	80,000.00	90,000.00
WI	Wisconsin Youth Futures	150,000.00	128,915.00
WV	Dev. Youth Potential: Enabling YAR to Become Healthy, Prod., Contributing Adults	149,414.00	106,400.00
WY	Community Coalition of High Risk Program	150,000.00	107,968.00
WY	Healthy Infant Capable Adolescent Project	78,708.00	68,051.00



## Fiscal Year 1993

<u>State</u>	<u>Title</u>	<u>Requested Amount</u>	<u>Funded Amount</u>
AK	4-H Yukon Fisheries Education and Youth Development Program	135,556.00	135,556.00
AK	Kuskokwim 4-H Fisheries and Youth Development Program	139,000.00	139,000.00
AL	Assess & Address: Meeting the Needs of High Risk Youth	71,500.00	71,500.00
AR	SAIL (Summer Adventures in Learning)	113,847.55	113,847.00
AZ	Phoenix Coalition for Youth and Families	104,077.00	104,077.00
CA	School Age Child Care Education	150,000.00	150,000.00
CA	4-H AM/PM Club - Chula Vista	125,000.00	125,000.00
CA	Reading and Science Literacy for At-Risk Youth	82,300.00	82,300.00
CT	New Britain/Slade Middle School After School Program	122,844.00	122,844.00
CT	Bridgeport R.I.S.E. (Respect and Integrity through Skills and Education)	104,383.00	104,383.00
CT	School-Age Child Care in Hartford, CT	140,000.00	140,000.00
CT	The New Haven SPACES Initiative	123,750.00	123,750.00
DE	Seaford Collaboration for Youth	65,820.00	65,820.00
DE	WCASA Community Partnerships	142,385.00	142,385.00
FL	Focus on the Future: Enhancing Literacy through Technology Education	83,113.00	83,113.00
GA	Calhoun/Gordon Co. Shuttle School	78,410.00	78,410.00
GA	Project KITE (Kid's in Tifton Enrichment)	145,219.00	145,219.00
GU	Project Youth Empowerment	83,322.00	31,217.00
HI	A.C.T. (Acting Collaboratively Together) to 'Act' to Decrease Youth at Risk	72,500.00	72,500.00
IA	Postville Child Care--A Rural Model for Before and After School Care	56,170.00	48,655.00
IA	Model City/Woodland Willkie LIT Prj.	149,934.00	149,934.00

IA	Community Parenting Coalition Targeting High Risk Youth	64,080.00	64,080.00
ID	School-Age Child Care and Parenting Resources (YAR)	99,002.00	99,002.00
ID	4-H Adventures Club	82,022.00	82,022.00
ID	After School Adventures & Mentoring Program	102,604.00	102,604.00
IL	Computer Assisted Learning	50,000.00	50,000.00
IL	YAR School Age Child Care and Parenting Education for Aledo, Sherrard & Westmer Unit School and Communities	50,051.00	50,051.00
IL	Youth at Risk School Age Child Care and Family Enrichment Program	90,099.00	90,099.00
IN	Space Station Indiana	56,433.00	56,433.00
KS	Responsive Educational Approach to Diversity	42,365.00	42,365.00
KS	Kids After School: Reno County, Kansas	80,000.00	80,000.00
KS	Caring and Collaborating for Youth, Kansas/Pottawatomie County	59,979.00	59,979.00
KY	Harlan Youth Employability Program	92,620.00	92,620.00
KY	Garrard County Child Care Program	78,990.00	79,990.00
LA	Horizon Program	101,200.00	101,200.00
MA	Youth at Risk Programming in Worcester County, Massachusetts	149,000.00	149,000.00
MD	4-H Adventure in Science	89,500.00	89,500.00
ME	Strategies for Developing School-Age Child Care in Rural Maine	56,229.00	56,229.00
MI	All for One: Pattengill Area Reading, Math & Science Literacy Coalition	74,796.00	74,796.00
MI	Literacy and Technology Literacy for Youth at Risk	150,000.00	150,000.00
MI	Say YES to Willow Run	83,744.00	83,744.00
MN	On the Move...For Minnesota Families	10,000.00	110,000.00
MN	Youth Issues Education	255,000.00	255,000.00

MN	Project FINE - Focus on Integrating Newcomers into Education	128,375.00	105,600.00
MO	4-H Summer Adventure Club	75,490.00	74,196.00
MO	Students Taking Academic Initiative for Reading Success (STAIRS)	92,300.00	92,300.00
MO	St. Joseph Youth Alliance: A Targeted Prevention/Intervention Coalition	132,875.00	132,875.00
MS	After School Child Care and Education	138,000.00	138,800.00
MS	4-H Project SOARS	80,000.00	80,000.00
MT	Native American Family	64,317.00	64,317.00
NC	Wayne County 4-H High Risk Programming in an After School Setting	140,935.00	140,935.00
ND	Rural School and Community Dev. Project	135,615.00	135,615.00
NE	13 Days - 13 Kids	95,010.00	95,010.00
NE	Girls Expanding Thinking in Science Math and Relevant Technology	79,665.00	79,665.00
NH	Youth Opportunities Unlimited: A Comprehensive School-Age Child Care Program	137,600.00	137,600.00
NJ	4-H After School Education in Newark Housing Complexes	85,024.00	85,024.00
NJ	Camden City Community Garden Prg. Youth-at-Risk Gardening Project	68,000.00	68,000.00
NJ	Bergen - Lafayette Upscale Project for Youth Ages 5-14	122,264.00	122,264.00
NM	From Roots to Wings	106,379.00	106,379.00
NV	Building Communities of Support for High-Risk Youth in Isolated Rural Nevada	114,925.00	114,925.00
NV	Choices and Challenges For Youth	87,000.00	87,000.00
NY	Rural Families Cooperative/After School Child Care Program	139,536.00	139,536.00
NY	"School's Out" SACC Program	135,568.00	135,568.00
NY	Making a Difference Program for Youth	111,325.00	111,325.00
OH	Cleveland Peer Volunteer Dev. Coalition	53,006.00	53,006.00
OH	Knox County After School Day-Care Prg.	44,929.00	44,929.00

OH	Athens County Coalition Enhancement	48,640.00	48,640.00
OH	Community Councils for Youth at Risk- -Clermont County	60,994.00	60,994.00
OK	Coalition for After School Care for High Risk Indian Youth	100,101.00	100,101.00
OK	Home Visitation Program for Adolescent Mothers	78,595.00	78,595.00
OR	Kid Konnection	93,200.00	92,300.00
OR	Youth Development in the Timber- Dependent Community of Mill City-Gates	116,200.00	116,200.00
PA	Youth Education Program in Coatesville	69,321.00	69,321.00
PR	Vieques Kids in Action for Science Educ.	70,000.00	70,000.00
RI	R.I. CE School Age Child Care Education	85,000.00	85,000.00
SC	CHOICES (Children Having Opportunities to Increase Chances for Education Success)	67,880.00	67,880.00
SD	After School Child Care	78,212.00	55,606.00
SD	Pine Ridge Youth Coalition and Center	42,000.00	42,000.00
TN	4-H B.E.S.T.--Building Esteem through Science and Tech.	95,000.00	95,000.00
TX	4-H C.A.R.E.S. (Children at Risk Educational System)	95,950.00	95,950.00
TX	The Rutabaga Project: 4-H School Age Literacy Education Program for Hispanic Youth	82,443.00	82,443.00
TX	Making the Grade, Victoria	83,722.00	83,722.00
TX	4-H C.A.P.I.T.A.L. Project (Was Partnerships: ROPES)	115,000.00	115,000.00
UT	Project CARES (Children at Risk Extended School)	122,960.00	122,960.00
VA	Strong Families, Competent Kids/Caring Communities	64,000.00	64,000.00
VA	Science/Technological Literacy Education for High Risk Youth in Giles County	74,787.00	74,787.00
VA	Bailey's Community "Making the Grade" Project of Fairfax County, Virginia	86,000.00	86,000.00



VT	Growing Up at Risk: Enhancing Community Awareness	50,000.00	50,000.00
WA	Family Focus School Age Child Care Prj.	132,030.00	132,030.00
WA	Salishan Together for At Risk Youth (STAR Youth)	109,895.00	109,895.00
WA	High-Risk Youth Program - 4-H Challenge	107,202.00	107,202.00
WI	National Center for Action in Community Based Action Research	90,000.00	90,000.00
WI	Wisconsin Youth Futures	128,915.00	128,915.00
WV	Dev. Youth Potential: Enabling YAR to Become Healthy, Prod., Contributing Adults	149,414.00	106,400.00
WY	Community Coalition of High Risk Youth Program	107,968.00	107,968.00
WY	Healthy Infant Capable Adolescent Project	67,968.14	67,968.00

#### AGRABILITY

Question. For this year, \$2,720,000 was appropriated for the Farm Safety program. Of this amount, \$1,750,000 was provided specifically for the assistance of disabled farmers and for those in farm-related occupations to continue their farm and farm-related activities, as recommended by the National Easter Seal Society. This program has come to be called AgrAbility. Are you providing \$1,750,000 for AgrAbility in 1993?

Answer. Yes, that amount has been committed for this program in 1993.

Question. You propose to cut farm safety by \$1,720,000 for 1994. Does this mean you are keeping \$30,000 for AgrAbility. Your budget justifications are unclear. Please explain.

Answer. The proposed budget does not include any funding for AgrAbility. The focus of the Farm Safety program proposal is to fund (\$800,000) for farm safety programs focused on limiting exposure to occupational hazards. Potential areas of increased emphasis include programs that effectively reduce the traumatic injury and death rates of farmers, such as health and safety education programs regarding exposure to agricultural chemicals, noise, dust, infectious agents, vibrations, etc.

Additionally, funds are requested (\$200,000) for awarding project proposals to train emergency rescue professionals in farm accident

extrication procedures and educate nonprofessionals in first-on-the-scene emergency response procedures. These programs are crucial to reducing the risk of injury to the rescuer, reducing the severity of the injury to the accident victim, and reinforcing the value of accident prevention.

Question. For 1992 and 1993, how many requests, and in what amount, did you have for these funds?

Answer. In fiscal year 1992 we had 20 requests totaling \$2,012,132. In fiscal year 1993 we have 24 requests totaling \$2,385,161.

Question. For 1992 and 1993, what projects did you fund and at what level?

Answer. (The information follows:)

State	Project Title	Fiscal Year (Amount in Dollars)	
		1992	1993
CO	AgrAbility		85,000
IA	Iowa Farmers ADAPT: An Educational & Technical Assistance Program for Farm Families Affected by Disability	130,640	135,860
IL	Illinois AgrAbility Unlimited Program	96,560	100,422
IN	Education & Training - Disabled Farmer Assistance	105,302	109,663
IN	National Grant for Training, Technical Assistance and Dissemination - USDA - Extension Service AgrAbility Project	164,381	175,753
KY	Kentucky AgrAbility Project		85,000
LA	Louisiana AgrAbility Project - Program for Farmers with Disabilities	90,880	94,516
MI	Michigan AgrAbility Project	85,000	88,400
MN	Minnesota AgrAbility Project - Map	85,000	88,400
MT ID	EIEIO - Empowerment & Independence through Education & Information Outreach	122,889	127,805
ND	North Dakota AgrAbility Project	85,000	88,400
NY	FarmAbility: Education & Training -- Disabled Farmer Assistance	96,560	100,422
SC	Education & Assistance Program for Farmers with Disabilities	85,000	88,400
VT NH	Rural & Farm Family Vocational Rehabilitation Program	124,868	129,722
WI	AgrAbility of Wisconsin	107,920	112,237

## NEW USES FOR FARM PRODUCTS AND FOREST PRODUCTS

**Question.** I note in your budget a request of \$200,000 for new uses for farm products and forest products. In your explanatory notes on this subject, you write that the FACT Act of 1990 authorized the development of research and education programs that will promote sustainable agricultural production systems and practices. Why is this program singled out for separate funding from the \$3,000,000 requested for Sustainable Agriculture under Section 3(d) of the Smith Lever Act?

**Answer.** In the explanatory notes, Crambe and Kenaf are the targeted crops mentioned. You are probably aware that Kenaf and Crambe are two alternative crops that have substantial acreage and markets in development. For example, Crambe acreage has grown from zero, three years ago, to over 60,000 this year. Kenaf acreage is growing as is the number of processing plants. It is imperative that producers are aware of the production practices to effectively grow these crops. They also need help with on-farm usage of by-products, both as animal feed and use in energy production; for example, Crambe oil can very easily be used as a diesel fuel replacement. These resources will help producers take advantage of these rapidly growing markets.

## AGRICULTURAL TELECOMMUNICATIONS PROGRAM

**Question.** What programs were developed in 1992 and 1993 and in what amount?

**Answer.** Programs developed in 1992 and 1993, and the amount of funding for each is as follows:

**Child Care Provider Training for the 90's and Beyond:** \$50,000; University of Idaho, in cooperation with the University of Nebraska. Description: Satellite-delivered seminar for child care providers and trainers of same.

**Agricultural Biotechnology: A Case Study in Public Policy Development:** \$33,140. Purdue University, in partnership with University of Wisconsin and in cooperation with Oregon State University, Michigan State University and Cornell University. Description: Satellite-delivered program designed to increase understanding of and capability to deal with the public policy and socioeconomic issues surrounding the use of agricultural biotechnology.

**Status and Potential of Aquaculture:** \$21,820; Purdue University and Auburn University, in cooperation with University of Illinois, Ohio State University, Michigan State University, University of Minnesota, Southern Illinois University and Iowa State University. Description:

Satellite-delivered program featuring production techniques, production and marketing aspects and fee-fishing operations.

**Mental Health Components in Rural Health Delivery Systems:** \$43,000; Iowa State University, in cooperation with Kansas State University, University of Missouri, University of Nebraska, Oklahoma State University. Description: Delivery of three satellite-delivered programs to Extension staff and mental health professionals and policy-makers to help them make the best use of public and private resources to assist clients.

**Gee Whiz in Agriculture:** \$15,000; University of Kentucky, in cooperation with Kentucky State University, the Kentucky Educational Television Network and the Kentucky Department of Education. Description: Delivery via Kentucky Education Television of a 15 program series designed to introduce elementary school children to agricultural sciences.

**Equine Science Telecourse/Extension Modules:** \$46,511; University of Kentucky, in cooperation with Texas A & M University and Colorado State University, American Association of Equine Practitioners, Kentucky Equine Research. Description: Satellite-delivered, upper-level course in Equine Science. Modular subject units can be used by Extension.

**Water Quality and Our Forests:** \$33,850; University of Maine, in cooperation with U.S. Forest Service; Northeast Forest Experiment Station; USDA Forest Service; Intermountain Research Station, Idaho; Clemson University; Baruch Forest Science Institute; Oregon State University; EPA, Atlanta. Description: Satellite-delivered program designed to increase public and professional awareness of how forests affect our water quality, plus a half-hour documentary will be produced for public television using material from the videoconference.

**Economic and Environmental Aspects of Animal Waste Management:** \$28,800; University of Minnesota, in cooperation with the Soil Conservation Service. Description: Satellite-delivered program designed to introduce participants to Manure Application Planner software.

**Implementation of Global Entrepreneurial Training for Youth (GETY) Project:** \$45,000; University of Missouri, in cooperation with Northwest Missouri State University; Quality Productivity Institute; Phoenix Institute for Global Entrepreneurship; Utah State University; Virginia Tech University; University of Arkansas; Texas A & M University; University of Manitoba, Canada; Kamchatka Young Manager's School; Republic of Russia; and Yamato Higashi Elementary School, Japan. Description: Portions of this project will be jointly funded by the International Marketing Initiative, including: teacher's institute, youth



training, community implementation of Global Entrepreneurship using Information Technologies (GEIT Way.) Ag Telecommunications Funding will be used to get the project up on internet.

**The Power of Partnerships: Developing and Implementing Strategies for Rural Development:** \$24,000; University of Missouri in cooperation with the National Rural Economic Developers Association. Description: Training program for staff of rural electric and telephone cooperatives on methods of building partnerships for rural communities and economic development.

**Rural Health: Successfully Meeting the Challenge:** \$20,000; University of Missouri, in cooperation with Missouri Department of Health, U.S. Public Health Service, Missouri Area Health Education Center, Missouri Hospital Association, Missouri State Medical association. Description: Satellite-delivered program highlighting significant rural health issues and showcasing successful programs.

**Great Beginnings: Nutrition Education Series for Pregnant Teens and Teen Parents:** \$24,925; University of New Hampshire, in cooperation with University of Vermont and the New England Extension Consortium. Description: Six-lesson nutrition education curriculum for pregnant teens and teens parents.

**Know Your Market First - Marketing Training for Small-Scale Farmers:** \$12,000; North Carolina A & T University, in cooperation with all 1890 land-grant universities, and the University of Fort Hare, Alice, South Africa. Description: Satellite-delivered program designed to teach small-scale farmers marketing strategies to increase profits.

**Extension's Role in Agriculture and Natural Resources Policy Conflicts:** \$55,810; North Carolina State University, in cooperation with the Orange County Dispute Settlement Center. Description: Satellite-delivered program designed to increase awareness and understanding of conflict management styles and methods for resolving public policy conflicts in ag and natural resources.

**Ohio Beef Quality Assurance:** \$11,647; Ohio State University, in cooperation with the Cattlemen's Associations of Ohio, Indiana and West Virginia. Description: Satellite-delivered program designed to introduce producers to the Beef Quality Assurance program of the National Cattlemen's Association.

**Introduction To Beekeeping:** \$31,884; The Ohio State University. Description: Satellite-delivered course for college credit, with secondary use of modules by Extension.

**The Miracle at Bridge Creek: A Teleconference on How to Build a Natural Resource Coalition:** \$31,740; Oregon State University.

**Description:** Satellite-delivered program designed to motivate participants toward receiving and valuing alternative methods of natural resource coalition building.

**Public Issues Education:** \$63,522; University of Wisconsin.

**Description:** Satellite-delivered program designed to expand the capacity of Cooperative Extension faculty and staff to conduct appropriate issues education.

**Raising Responsible Teens:** \$42,239; University of Wisconsin, in cooperation with University of Wisconsin Hospitals and Clinics, University Hospital Consortium, SERC, Wisconsin Department of Public Instruction. **Description:** Three satellite-delivered parenting education programs. The first designed for youth serving professionals; the second for parents of early adolescents; and the third for parents and early adolescents to participate in together.

**Waste Management:** \$18,336; University of Wisconsin, in cooperation with University of Wisconsin Solid and Hazardous Waste Center; University of Florida; University of Nebraska; Cornell University. **Description:** Three satellite-delivered programs designed to provide Extension, public school teachers and state and federal agency staff with a basic understanding of waste issues and options. Communities will discuss implementation of integrated waste management systems.

**International Agribusiness Marketing in a Transitional Environment:** \$75,000;

Consortium of universities including: Oregon State University, University of Kentucky; Dawson Community College; American Graduate School of Management; Mississippi State University; Texas A & M University; Oklahoma State University; Iowa State University.

#### **Information on Six Previously Funded Courses:**

Methods of Teaching Agriculture: \$22,889; Ohio State University

Introductory Food Science: \$20,496; Pennsylvania State University

Agricultural Ethics: \$11,550; Texas A&M University

Municipal Solid Waste Management: \$44,908; Clemson University

Cereal Science: \$21,275; Kansas State University

Agricultural Marketing and Entrepreneurship: \$62,425; University of Nebraska

## AG\*SAT

Question. Are you working with the Rural Electrification Administration and with the Agricultural Satellite Corporation and the Satellite Education Resources Consortium to expand the use of this technology in rural America?

Answer. ES-USDA is cooperating with the Rural Electrification Administration (REA) to disseminate information about Distance Learning/Medlink Funding. State Extension Directors are coordinating state review panels for recommendations to the administrator of REA for funding consideration.

ES-USDA also made information needed to complete proposals available to state land grant universities for distribution to prospective bidders in rural communities electronically on ES-USDA's almanac information server.

Extension staff are working with the Executive Director of the Satellite Education Resource Consortium (SERC) and are maintaining regular communication and encouraging AG\*SAT institutions to work cooperatively to develop programming focused on rural youth and K-12 students.

An example is the "Gee Whiz in Agriculture" prototype produced by the University of Kentucky. SERC and Kentucky staff are holding joint discussions. AG\*SAT's Executive Director has met with both REA and SERC Executive Directors.

AG\*SAT has developed a marketing plan designed to make the organization a full service distance education organization. AG\*SAT is using internet to disseminate information about upcoming programs.

Question. What nonfederal funds are being used to develop and utilize this technology?

Answer. States have formed partnerships with agribusiness; professional associations; state and local government; and local, state and national foundations. These organizations are expected to provide partial funding support as AG\*SAT programming evolves. For example, the international marketing project involves 14 international corporations and grower cooperatives in the planning and development of courses. The project "Rural Health" involved significant contributions from the US Public Health Service and several Missouri state health agencies. The proposals must show a 50% state funding match and are expected to also include private sector funding support.

## EXTENSION TRAINING FOR SUSTAINABLE AG

Question. Three million dollars is proposed for the National Extension Training Program in sustainable agriculture. How does Extension plan to utilize these funds?

Answer. Our proposal is to address agricultural community needs for new technologies and production methods efficiently integrated into existing production systems. These funds provide for the development and delivery of Cooperative Extension educational programs necessary to achieve the objectives of this Sustainable Agriculture Initiative. Funds would be used to:

- o Establish demonstration projects to illustrate how technologies, practices, and production sub-systems can be integrated into existing systems.
- o Improve current decision support systems such as GOSSYM-COMAX and PLANETOR.
- o Develop new tools and approaches to improve decisionmaking and access to research-based information and education.

Question. Would it be more effective to establish a small number of National Centers rather than dividing the funds among all 50 states?

Answer. We plan to involve a range of expertise to provide support to producers in implementing sustainable systems. It is our intent to focus resources on the projects which demonstrate the highest potential for success. We do not plan to establish National Centers with the proposed funds.

Question. Does Extension plan to establish the training program in conjunction with other organizations that already have experience in sustainable ag?

Answer. Extension will seek to involve Universities and non-profit private organizations having demonstrated knowledge and expertise in sustainable agriculture. However, it should be noted that within the Cooperative Extension System about 625 full time equivalents are addressing Sustainable Agriculture issues and delivering programs. We estimate approximately one-third of these resources support training.



## QUESTION SUBMITTED BY SENATOR KOHL

Question. In response to my question about the Sustainable Agriculture Technology Transfer and Development program, you stated that \$15 million was already being spent by the Extension Service for training personnel in sustainable agriculture systems. For the record, could you please submit in writing your documentation of those expenditures. Also, I would also be interested to know whether that \$15 million in training conforms to the training program authorized in Chapter 3 of Subtitle B of Title 16.

Answer. The \$15 million, referenced in my testimony, reflects redirected dollars by State Extension Services trying to implement a sustainable agriculture program. States submit a Plan of Work for the Sustainable Agriculture Initiative. These Plans of Work indicate the number of dollars to be spent in support of this initiative, they also indicate the number of full time equivalent employees, both professional and paraprofessional, which will be working in this area. At this time an evaluation of these plans is in process to determine if they conform to the Chapter 3 requirements. It is most likely that the majority do conform.

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## QUESTIONS SUBMITTED BY SENATOR COCHRAN

Question. What is being done to maximize the benefits of our many research efforts to the agricultural community through education programs carried out by the Extension Service?

Answer. The Cooperative Extension System coordinates its dissemination of research results and educational programs around program topics and issues. This coordination occurs from Federal to State to local levels and includes the various organization of the agricultural community. These two factors of focusing on issues of concern to the American public and interaction at all levels of organization and program delivery brings the cumulative impact of the realized resources to bear on the need, minimizes duplication of effort, and supports the maximization of program benefits to our clientele. Constraint review and evaluation of programs at the State and local level, as well as by ES-USDA, is also utilized to maximize the benefits of Extension programs.

Question. I understand we are making significant progress in our kenaf research and product development efforts. In fact, I note that the Extension Service plans a program to educate agricultural professionals on the commercial uses of kenaf. Would you please update us on the results of our research efforts to date and tell us what funding is included in the fiscal year 1994 request to further the development of new alternatives for utilization of kenaf?

Answer. Currently, the Cooperative State Research Service and the Alternative Agricultural Research and Commercialization Center received funds for the kenaf research. These projects included (1) Recycled Fibers Newsprint Project Development -- the project proposes to construct and operate a small newsprint mill in a rural community, using kenaf and recycled newspaper; (2) Structural Panels from Kenaf Fibers -- the aim of this endeavor is to evaluate the use of kenaf fibers as a raw material in the construction of structural panels stage and theater sets and convention displays, as well as their use in office dividers and furniture; and (3) Integrated Kenaf, Broiler Manure and Beef Production System -- this project promote the use of a waste, broiler chicken manure, as an inexpensive source of feed and pasture fertilizer for beef production in the Delmarva Peninsula. Additionally, Extension Service does have a request for support for educating producers on the "how to" of kenaf production. Education of producers as to marketing and on farm use will also take place.

Question. What plans, if any, does the Extension Service have to utilize distance learning capabilities to augment the delivery of health care and other educational services to our rural communities?

Answer. The Extension Service has a number of efforts under way that utilize its distance learning capabilities to augment the delivery of health education, health care, and other educational services to rural communities. These include: (1) The Cooperative Extension System is participating with the Rural Electrification Administration in the application approval process for that agency's MedLink and EdLink rural telecommunications grant program. Extension is also active in informing rural communities of the opportunity to participate in this program and in assisting communities in the grant application process; (2) Extension is partnering with the National Association of Counties in conducting a nationwide videoconference on the role of counties in national health reform.

This includes an emphasis on the impacts of national health reform on rural counties; (3) continue to develop distance learning classrooms to extend the instructional capacities of the Mississippi Rural Health Corps demonstration program in providing instruction for two-year RNs, LPNs, and other allied health professionals in rural Mississippi; (4) Extension in North Dakota will continue to demonstrate the capabilities of the North Dakota Interactive Video Network for delivering baccalaureate level course work in nursing, laboratory technician, and social work to eleven remote sites; (5) Extension Service is conducting a nationwide education program for lay persons on national health reform, and is proposing to conduct three nationwide videoconferences on this issue as the legislative process unfolds; and (6) A long-term component of Extension's Decisions For Health National Extension Initiative will be the development of community health networks via its telecommunications networking capabilities.

The Cooperative Extension System currently has in place a comprehensive Distance Education capability augmenting the delivery of health care and other education services to rural communities. An example is the ES participation in the Mississippi Rural Health Care Project, a joint effort to combat the rural health care crisis. The Extension System is pleased to be a part of this collaborative approach involving the expertise of 15 community colleges, the Extension Service, the Mississippi Health Department, and six private partners addressing a most critical need: the need to empower rural communities to implement health care strategies and procedures. The distance education component allows the linkage of partners to MSU through the INTERNET computer system, and potential educational program delivery through an interactive television network approach.

Distance education efforts in related health care issues (e.g. "prevention") include national interactive video teleconference opportunities such as the recent teleconference on Food Labeling targeting hospital dietitians, food service individuals, county extension personnel, and other interested individuals. And, by spearheading the National Decisions for Health Initiative, ES will provide opportunities to promote healthy lifestyles, improve access to affordable health care, and expand the ability of communities to strengthen their health and health-related infrastructure. These efforts support the Clinton administration emphasis on empowerment by rural communities in the area of health care.

Question. The fiscal year 1994 request proposes to eliminate the \$1.750 million currently earmarked for Indian Reservation Extension Education. What is the justification for this proposal? This program has been essential in removing barriers to Indian participation in national farm programs. It is authorized in the 1990 Farm Bill and the continuation of Extension programs on reservations is the highest agricultural priority of Native Americans.

Answer. This program was developed with prior earmarked funds. Funding from basic formula programs, State and local governments and private sources could be used to continue high priority aspects of these programs.

Question. Could you please tell us how the Extension Service is coordinating its nutrition education programs targeted to families enrolled in the WIC program with USDA's Food and Nutrition Service and what the initial results have been from the projects receiving first-year funding?

Answer. In the conduct of the Cooperative Extension System's (CES) nutrition education programs, we have collaborated with other agencies and organizations, one of which is the Supplemental Food Program for Women, Infants and Children (WIC). Over the past 5 years, approximately 40-45 percent of the total CES Expanded Food and

Nutrition Education Program (EFNEP) clientele also received WIC benefits. The range of the cooperation has varied from cross-referral systems, conduct of classes at WIC clinics, and shared training sessions. This past experience has provided a base in working together, but has also identified areas where improvements could take place.

For Fiscal Year 1993, there is new funding for an ES/WIC Nutrition Education Initiative. The goals of this Initiative are: to increase interagency collaboration; to improve knowledge and behavior in areas such as food selection, purchasing, storage, safety, and preparation; and to improve breastfeeding and dietary behaviors. To implement this Initiative, ES is providing funds to States in two ways. All States and territories are eligible to receive \$30,000 based on an approved Plan of Work (POW). States are providing matching resources for this Initiative from non-Federal sources. Thus far, Plans from 53 States and territories have been reviewed and are in the approval process. One of the primary purposes for these fundings is to increase the interagency collaboration between CES and WIC. Through the process of jointly developing the POW, the local staff worked together to identify the needs of clients and to develop strategies for working together to meet these needs.

In addition, there were opportunities to submit competitive proposals for projects up to \$100,000. Over 30 responses have been received for this effort. These larger projects identified more innovative approaches to delivering the intensive nutrition education, and encouraged working with other community-based organizations that are also addressing maternal and infant health needs, such as the DHHS Healthy Start Program, the Plight of Young Children Initiative, Weed and Seed, and Healthy Children Ready to Learn.

For both funding streams, the Plans and proposals were jointly developed between ES and WIC State or local staff. This joint planning included the identification of the target audience, focus of the nutrition education, training to be conducted and evaluation methodology. There is a high level of excitement about the new opportunities for collaboration that this Initiative provides.

We are currently undergoing an extensive review and evaluation process to select the most promising projects. This is being done with the joint efforts of ES and Food and Nutrition Service staff.



## QUESTION SUBMITTED BY SENATOR SPECTER

### SUSTAINABLE AGRICULTURE

Question. Mr. Plowman, the Administration's budget recommendations for fiscal year 1994 has suggested \$3 million for Sustainable Agriculture through the Extension Service. As you know, the Food, Agriculture, Conservation and Trade Act of 1990 authorized two Extension Service Sustainable Agriculture chapters, each at \$20 million per year under Title XVI, Subtitle B.

Considering the Department's budget request for Sustainable Agriculture is unclear between which of the two chapters in the Farm Bill will receive funds, how do you propose the Extension Service utilize these funds if appropriated? If only one of the two chapters are to receive funds, please explain your rationale. Under the President's request, will these two chapters be administered on a regional level through the same Sustainable Agriculture Regional Administrative Councils as chapter 1 has been administered?

Answer. The agricultural community needs new technologies and production methods efficiently integrated into existing production systems. The proposed funds would provide for the development and delivery of Cooperative Extension educational programs necessary to achieve the objectives of the Sustainable Agriculture Initiative. Funds would be used to:

- o Establish demonstration projects to illustrate how technologies, practices, and production sub-systems can be integrated into existing systems.
- o Improve current decision support systems such as GOSSYM-COMAX and PLANETOR.
- o Develop new tools and approaches to improve decisionmaking and access to research-based information and education.

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## QUESTIONS SUBMITTED BY SENATOR HATFIELD

### REGIONAL RURAL DEVELOPMENT CENTERS

Question. Dr. Johnsrud, as you know, the four Regional Rural Development Centers were reviewed by the Extension Service and CSRS in 1991. Briefly, what were the recommendations of the Review panel and what did they say about the effectiveness of the Regional Centers?

Answer. The Review panel made 12 recommendations, generally focused on five major themes: (1) The Regional Rural Development Centers (RRDCs) should increase their strategic planning efforts, in concert with regional needs and resources--time, finances and expertise--as determined by their respective Boards of Directors and, secondarily, in concert with national needs and resources. The Boards should reflect a broader set of rural issues than currently. (2) The RRDCs should seek ways to increase the scope and utility of their products through wider and more innovative dissemination procedures to broader audiences. (3) The programming efforts of the RRDCs should be tailored to regional needs and secondarily to national needs. (4) The USDA (especially CSRS and ES), should forcefully seek additional funding for the Centers. (5) USDA should establish a regular review pattern for the RRDCs.

Max Lennon, President of Clemson University and Review panel chairman, said "Overwhelming evidence was presented that supports the value of the RRDCs. In each case, the panel was impressed with a long list of major successes especially when compared to the rather limited funding that has been available to the centers..."

Question. Are you still pleased with the productivity of the Centers and are they contributing to the Extension Service's priority issues of rural people and communities?

Answer. Yes, we believe the Centers to be very cost-effective, productive components of the Extension System. We are pleased with their contributions to our National Initiatives on Communities in Economic Transition, Decisions for Health and Waste Management.

Question. Since the 1991 Review, a new initiative on "Communities in Economic Transition" has been developed. Does the work of the Regional Centers contribute to Extension's ability to address this new thrust?

Answer. Many small communities, as well as the core of many urban centers, face an impending economic transition due to deteriorating infrastructure, declining numbers of jobs, and reduced earning capacity of the families who live within these areas. The Cooperative Extension System has undertaken a major national effort to assist communities as they strive to diversify local economies and adapt to the newly emerging global marketplace. This effort is identified as the "Communities in Economic Transition" National Initiative.

The Regional Rural Development Centers are an integral part of the implementation of the National Initiative. The Centers will facilitate most of the training to prepare the Extension System to move forward with implementation of the Initiative. They may also serve as a staging arena to implement a series of regional "Expert Teams" to support community-

based economic development activities. In furthering the development and refinement of development strategies, tools, educational workshops, and other support resources, the RRDCs may provide support for national design teams charged with oversight of this effort. These design teams are charged with identifying "best" practices currently in use and carrying their application to higher levels of efficiency and impact.

## ALTERNATIVE AGRICULTURAL RESEARCH AND COMMERCIALIZATION CENTER

### QUESTIONS SUBMITTED BY SENATOR BUMPERS

#### ALTERNATIVE AGRICULTURAL RESEARCH AND COMMERCIALIZATION

Question. How many additional centers will you set up if the 1994 budget request is provided?

Answer. Authorizing legislation allows for the establishment of up to six regional centers. It is anticipated the Board will decide the locations of the first two regional centers at their May 19, 1993 Board meeting. After evaluation of the first two regional centers, the need for additional regional centers will be determined.

Question. Please provide a list of the members of the AARC board.

Answer. The AARC Center Board was appointed by Secretary Madigan on March 6, 1992. The nine Board members, by category prescribed in the authorizing legislation, are:

Mr. Mark Dungan

USDA representative. Office of the Secretary, Washington, DC --now vacant awaiting appointment by Secretary Espy.

Dr. Roger Porter

Leading scientist. University of Massachusetts, Material Scientist, Amherst, Massachusetts.

Mr. Lee Reeve

Producer and processor of agricultural materials. Reeve Cattle and Energy Company, Garden City, Kansas.

Mr. Philip Gross

Engaged in commercialization of starch polymers from agricultural materials. President of Novon Products, Morris Plains, New Jersey.

Mr. John Fujii

Engaged in commercialization of forestry products. Director of Manufacturing Technology, James River Corporation, Camas, Washington --retired in November 1992.

Dr. Ralph Hardy

Nominated by the National Science Foundation. President of Boyce Thompson Institute, Ithaca, New York.

Dr. Jerry Caulder

Nominated by the National Science Foundation. President of Mycogen Corporation, San Diego, California.

Mr. Martin Andreas

Nominated by the Department of Commerce. Senior Vice President, Archer Daniels Midland, Decatur, Illinois.



**Mr. Delwin Schneider**

Nominated by the Department of Commerce. President and CEO of CILCORP Ventures, Peoria, Illinois.

Question. How many meetings has the board had?

Answer. The Board has met five times and a meeting is scheduled for May 18 and 19 in Washington, DC. Regular Board meetings were as follows: April 13 and 14, 1992 in Washington, DC; July 7 and 8, 1992 in Chicago, Illinois; September 15 and 16, 1992 in Denver, Colorado; December 13 through 15, 1992 in Chicago, Illinois; and March 2 and 3, 1992 in San Diego, California. Two special Board meetings were held in conjunction with public hearings conducted by AARC in Cedar Rapids, Iowa on May 12, 1992 and in Bloomington, Minnesota on June 16, 1992.

Question. How much money do you expect to spend in 1993 and 1994 for compensation of the board as defined in the authorization?

Answer. Under provisions of the law, the compensation of the Board members may not exceed the daily equivalent of the annual rate for grade GS-18 of the General Schedule. Currently, Board members are being compensated at a rate of \$415 per day. We estimate approximately \$80,000 will be spent on compensation for the Board in fiscal years 1993 and a like amount in 1994.

#### SUBCOMMITTEE RECESS

Senator BUMPERS. This concludes our hearing for today. Our next hearing will be held Tuesday, March 18, in this same room at 10 a.m. The subcommittee will receive testimony from the Commodity Futures Trading Commission, the Food and Drug Administration, and the Farm Credit Administration.

The subcommittee stands in recess.

[Whereupon, at 12:25 p.m., Tuesday, May 11, the subcommittee was recessed, to reconvene at 10:03 a.m., Tuesday, May 18.]



# AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1994 •

TUESDAY, MAY 18, 1993

U.S. SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,  
*Washington, DC.*

The subcommittee met at 10:03 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Dale Bumpers (chairman) presiding.  
Present: Senators Bumpers, Kohl, Cochran, Specter, Bond, and Gorton.

## COMMODITY FUTURES TRADING COMMISSION

STATEMENT OF WILLIAM P. ALBRECHT, ACTING CHAIRMAN

ACCOMPANIED BY:

EWEN WILSON, EXECUTIVE DIRECTOR  
MADGE BOLINGER, BUDGET DIRECTOR

### OPENING REMARKS

Senator BUMPERS. Today we continue our hearings on the fiscal year 1994 budget for Agriculture, Rural Development, and Related Agencies.

We will review the budgets for the subcommittee's related agencies: the Commodity Futures Trading Commission, the Food and Drug Administration, and the Farm Credit Administration today.

This morning we will begin with the Commodity Futures Trading Commission and hear from Mr. William Albrecht, the Acting Chairman. We do not get anything but acting any more. [Laughter.]

In summary, CFTC proposes an increase in its budget from \$47,300,000 for 1993, to \$47,485,000, that is a \$1,185,000 increase, for 1994.

Mr. Albrecht, we have your statement. It will be made a part of the record in full. I hope you will be able to summarize your statement and any additional comments you would like to make. We are very happy to hear from you. Thank you for coming.

### STATEMENT OF WILLIAM P. ALBRECHT

Mr. ALBRECHT. Thank you, Mr. Chairman. With me today are Ewen Wilson, our Executive Director, and Madge Bolinger, the Budget Director for the CFTC.

Senator BUMPERS. Mr. Albrecht, I want to set the record straight. My subtraction is terrible. It is a \$185,000 increase.

Mr. ALBRECHT. Thank you. To begin with, I would just like to provide a little background on the role of the CFTC in the marketplace. As you know, the CFTC is responsible for ensuring the integrity of the futures and options market, protecting customers from trading abuses and fraudulent practices, and monitoring the markets to protect and deter price distortion and market manipulation.

The Commission is also responsible for ensuring that the firms which operate in the marketplace comply with the Commission's financial regulations, including its net capital and segregation rules.

The importance of the futures and options markets is clearly demonstrated by their growth from 170 million contracts traded in 1985, to over 350 million last year.

The commodity futures and options markets have become an integral part of the complex global economy we live in today. Physical threats, such as the Chicago flood and the bombing at the World Trade Center, are dramatic reminders of the importance of these markets.

The integrity of the markets themselves is no less important to their continued survival than their freedom from floods and bombs. If the integrity of any of these markets is compromised, the participants in the markets will turn elsewhere, and the markets will wither.

Congress demonstrated its understanding of this by putting tough new regulatory standards into the Futures Trading Practices Act of 1992. The Commission is now in the process of implementing that new statute and its new standards.

Congress also recognized that the financial world is changing rapidly, and it has become more competitive internationally. The 1992 act gave the Commission authority to exempt certain derivative instruments, and encouraged the Commission to act promptly to consider exemptions from the Commodity Exchange Act for swaps, hybrids, and forwards.

The Commission has responded by acting on each of these matters. This legislation can provide the much needed element of legal certainty to a fast-growing area of financial products. If properly implemented, it will keep business from seeking alternative markets overseas, and help preserve the preeminence of the U.S. financial markets.

#### FISCAL YEAR 1994 BUDGET REQUEST

The President's fiscal year 1994 request for the CFTC is \$47.485 million, with a staff ceiling of 554. The amount of the request is just slightly higher than the amount that was appropriated for each of the past 2 years, which was \$47.3 million.

This is about \$12.5 million less than Congress authorized last fall for the CFTC to carry out its increasing responsibilities. The staff ceiling of 554 is about 12 FTE's below the number currently on board, and is about 40 FTE's below the level we had reached in fiscal year 1992.

But even this ceiling of 554 is somewhat misleading, since we project that the proposed budget will support only 521 FTE's with the level of support services necessary for efficient and effective operation.



The proposed budget amount, after adjustment to account for inflation and other cost increases, represents a cut for the second straight year.

#### IMPACT OF REDUCTIONS

As a result, the CFTC has instituted a hiring freeze, cut into essential services, deferred an upgrade of the Commission's main-frame computer, cut travel and training by 20 percent, cut back on employee awards, cut back on automated legal research, curtailed overtime, and reduced the amount of subscriptions to periodicals and journals, among other things.

At this stage, it is difficult to estimate the impact on our effectiveness, but my written statement provides some idea of how the Commission is dealing with these cuts, by explaining how they have been allocated among our various divisions.

We also intend to conduct a strategic review to determine how to restructure the Commission's programs in a manner that will result in long-term cost savings, while fulfilling the agency's regulatory mandate.

We are reviewing our regulatory programs to determine which can be shifted, in whole or part, to self-regulatory organizations. We also continue to review our regulatory programs and administrative activities to determine whether they can be restructured to result in long-term cost savings.

One area we are reviewing is the Reparations Program, to find ways to make it less costly. As appropriate, rules will be developed to effectuate cost savings where possible. We will attempt to achieve further personnel savings through even greater reliance on technology.

In conclusion then, we will do the best we can to fulfill our statutory mandate by further belt tightening, and reallocating resources and responsibilities. We will do the best we can to accomplish this without significantly impairing our overall effectiveness. We will do the best we can within these budgetary constraints.

Thank you, Mr. Chairman. My staff and I will be pleased to answer any questions.

#### PREPARED STATEMENT

Senator BUMPERS. Thank you very much, Mr. Albrecht. We have your complete statement and it will be made part of the record.

[The statement follows:]

#### STATEMENT OF WILLIAM P. ALBRECHT

Mr. Chairman and Members of the Subcommittee: I appreciate the opportunity to discuss with you the Commission's fiscal year 1994 budget request. Accompanying me today are Ewen Wilson, Executive Director, and Madge Bolinger, Budget Director for the CFTC.

#### BUDGET REQUEST

The President's fiscal year 1994 request for the CFTC is \$47,485,000, with a staff ceiling of 554. The amount of the request is just slightly higher than the amount that was appropriated for the past two years, which was \$47.3 million. However, it is about \$12.5 million less than Congress authorized last fall for the CFTC to carry out its increasing responsibilities. The staff ceiling of 554 is about 12 FTEs

below the number currently on board. However, it is about 40 FTEs below the level we had reached in fiscal year 1992.

The proposed budget amount, after adjustment to account for inflation and other cost increases, represents a cut for the second straight year. This means that the Commission's programs have been under financial pressure for over a year. The CFTC's budget is largely personnel driven. As such, this budget will necessarily affect the agency's core resource—its personnel. We project that the proposed budget will support 521 FTEs at a level of support services necessary for efficient and effective operation.

#### ROLE OF THE COMMISSION

As background, I will summarize the role of the Commission in the marketplace. As you know, Mr. Chairman, the CFTC is responsible for ensuring the integrity of the futures and options markets, protecting customers from trading abuses and fraudulent practices, and monitoring the markets to detect and deter price distortions and market manipulations. The Commission is also responsible for ensuring that the firms which operate in the marketplace comply with the Commission's financial regulations, including its net capital and segregation rules. The overall financial health of the firms is important to the viability of the clearance and settlement system and the prevention of default and systemic failure. The importance of futures and options markets is clearly demonstrated by their growth from 170 million contracts traded in fiscal year 1985 to over 350 million contracts in fiscal year 1992. The extent to which these markets are used as a price discovery mechanism and an important financial risk shifting tool is clearly demonstrated by these figures.

The commodity futures and options markets have become an integral part of the complex global economy we live in today. Physical threats, such as the Chicago flood and the bombing at the World Trade Center, are dramatic reminders of the importance of these markets. A broker in New York described it aptly when he said that operating without the benefit of futures markets "would be like trying to drive with your windshield covered by ice or snow."

The integrity of the markets themselves is no less important to their continued survival than their freedom from floods and bombs. If the integrity of any of these markets is compromised, the participants in the markets will turn elsewhere, and the markets will wither. I know that Congress understands this. Following the well-publicized "sting" operation in the Chicago markets a few years ago, you and your colleagues on Capitol Hill proposed tough new regulatory standards including provisions to strengthen exchange audit trails, to prohibit exchange and NFA employees and officials from misusing non-public information, to restrict dual trading in certain instances, to avoid conflicts-of-interest for exchange boards and committees, and to assess the risks to which FCMs are exposed by their affiliates. Those standards were enacted in the Futures Trading Practices Act of 1992, signed into law last October. The Commission is now in the process of implementing that new statute.

Congress also recognized that the financial world is changing rapidly and has become more competitive internationally. The 1992 Act gave the Commission authority to exempt certain derivative instruments and encouraged the Commission to act promptly to consider exemptions from the Commodity Exchange Act for swaps, hybrids and forwards. The Commission has responded by acting on each of these matters. This legislation, which provides the much needed element of greater legal certainty to a fast-growing area of financial products, will keep business from seeking alternative markets overseas and help preserve the preeminence of the U.S. financial markets.

#### EFFECTS OF REDUCED FUNDING

As I have stated, the Commission's budget was frozen last year. Since that time, the CFTC has instituted a hiring freeze, cut into essential services (including deferring an upgrade of the Commission's mainframe computer), cut travel and training by 20 percent, cut back on employee awards and automated legal research, curtailed overtime, and reduced the number of subscriptions to periodicals and journals, among other things. The Commission will continue to employ such cost savings measures.

The Commission expects that the reduced funding, in varying degrees, will affect all of its programs. Some programs have already been impacted by past cuts. At this stage, it is difficult to estimate the impact on our effectiveness, but I would like to give you some idea of how the Commission is dealing with these cuts. In particular, I would like to discuss how we have decided to allocate these cuts among our divisions.

*Enforcement.*—Our programs include a strong enforcement program which has successfully concluded many cases against individuals, firms and members of exchanges. Under the proposed budget, this program will have a fiscal year 1994 FTE ceiling of 140. This represents a reduction of 12 from this year's ceiling of 152, and a reduction of 17 from the actual staff-year usage of 157 in fiscal year 1992.

*Economic Analysis.*—Our programs include a vigorous and imaginative surveillance and economic research program, which continually monitors the markets, evaluates the Commission's regulatory approach and suggests improvements. Under the proposed budget, this program will have a fiscal year 1994 FTE ceiling of 90. This represents a reduction of 8 from this year's ceiling of 98, and a reduction of 15 from the actual staff-year usage of 105 in fiscal year 1992.

*Financial and Intermediary Affair.*—Our programs include a Financial and Intermediary Affairs program that protects customer funds, develops requirements for commodity professionals, administers the managed funds and registration programs, and oversees the self-regulatory organizations' financial and sales practice compliance audit programs. Under the proposed budget, this program will have a fiscal year 1994 FTE ceiling of 66. This represents a reduction of 3 from this year's ceiling of 69, and a reduction of 6 from the actual staff-year usage of 72 in fiscal year 1992.

*Market Review and Development.*—Our programs include a Market Review and Development program which oversees the integrity, fairness and competitiveness of the markets and the trading thereon, reviews contract markets' rules, and assesses the adequacy of exchange compliance programs. Under the proposed budget, this program will have a fiscal year 1994 FTE ceiling of 56. This represents a reduction of 3 from this year's ceiling of 59, and a reduction of 5 from the actual staff-year usage of 61 in fiscal year 1992.

I would note for the record that the Financial and Intermediary Affairs and Market Review and Development programs are currently administered by the Commission's Division of Trading and Markets. Last year, the Commission approved a proposal to reorganize the Division of Trading and Markets into the two new divisions described above.

*Agency Direction, Administrative Management and Support, Legal Counsel and Proceedings.*—Under the proposed budget, these programs will have a fiscal year 1994 FTE ceiling of 169. This represents a reduction of 15 from this year's ceiling of 184, and a reduction of 28 from the actual staff-year usage of 197 in fiscal year 1992.

For the information of the Committee members, I have attached to this testimony an appendix that summarizes some of the highlights of our programs for fiscal year 1992. As is evident from the Appendix, the Commission accomplished a lot in fiscal year 1992 and has much to be proud of.

While the Commission realizes that all of its programs will be affected by these budgetary constraints, it also intends to conduct a strategic review to determine how it can restructure its programs in a manner that will result in long-term cost savings while fulfilling the agency's regulatory mission. Specifically, the CFTC is reviewing its regulatory programs to determine which can be shifted, in whole or in part, to self-regulatory organizations, and therefore, produce long-term savings to the Commission. The National Futures Association may be able to assume additional responsibilities in the registration area and perhaps other areas. We also continue to review our regulatory programs and administrative activities to determine whether they can be restructured to result in long-term cost savings. One area we are reviewing is the reparations program to find ways to make it less costly to administer. As appropriate, rules will be developed to effectuate cost savings in areas where possible. We will also attempt to achieve further personnel savings through even greater reliance on technology.

Consistent with our strategic planning and prioritization of programs, we will re-deploy our resources. We expect to achieve this reduced staffing through normal attrition.

#### CONCLUSION

In conclusion, we hope to continue successfully fulfilling our statutory mandate by further "tightening the belt" and reallocating resources and responsibilities. Nonetheless, in real terms, our budget is being substantially reduced for the second year in a row and the possibility exists that our overall effectiveness will be impaired. We believe that the CFTC has done a good job in dealing with its budgetary constraints and we will continue to endeavor to do so.



Mr. Chairman and members of the Committee, there are many challenges facing the CFTC today. I assure you that the Commissioners and the CFTC staff are dedicated to meeting these challenges.

Thank you Mr. Chairman. My staff and I would be pleased to answer any questions you and other committee members may have about the President's request.

#### APPENDIX

#### HIGHLIGHTS OF CFTC PROGRAMS FOR FISCAL YEAR 1992

The Commission has been involved in a number of important activities during the past year. The following summarizes some of the highlights of these activities.

*Reauthorization.*—As discussed in the testimony, the Futures Trading Practices Act of 1992 was signed into law last October and in compliance with this legislation the Commission has already provided exemptive relief for swap transactions, hybrid instruments and certain energy products. Also, final rules have been adopted in the areas of registration of floor traders, ethics training for registrants, registration suspension for registrants charged with felonies, and exchange emergency actions. Rulemakings concerning dual trading, oral orders and the registration of broker associations are ongoing. The Act also requires the Commission to conduct a number of studies. The first due is a study on derivatives which we are expected to forward to Congress by October 28, 1993. Commission staff continues to work diligently to meet the deadlines imposed by the Act.

*Futures and Option Contracts.*—Fiscal year 1992 was a banner year with a record setting approval of futures and option contracts. Forty-two contracts were approved during this period. Some of the contracts approved by the Commission are very innovative and reflect the specialized hedging needs of market participants. For example, futures contracts based on health and homeowners insurance represent a unique opportunity for the insurance industry to manage the risk associated with underwriting and claims on certain insurance policies. The approval of "clean air" futures, based on the sulfur dioxide emission allowances outlined in the Clean Air Act, represents a market-based solution to deal with an environmental problem. Also, new stock-index futures contracts based on foreign indices provide institutional investors with additional instruments to hedge their portfolios. We anticipate that the futures exchanges will continue to submit innovative contract market designation applications such as these in the future.

*Enforcement Activities.*—As a result of the Commission's investigation of trading abuses at New York exchanges, the Commission has alleged that a total of 45 persons and 6 firms engaged in violations relating to floor trading abuse. The alleged violations include fraud, non-competitive execution of trades, bucketing of customer orders, and failure to retain required trading records. By the end of fiscal year 1992, 15 individuals and all six firms had entered into settlements with the Commission.

In criminal actions arising from the Commission's joint law enforcement effort with the U.S. Attorney's office in the Southern District of New York and the U.S. Postal Inspection Service, five individuals were sentenced in fiscal year 1992 after pleading guilty to various counts of conspiracy and commodities fraud. The sentences included two to three years probation, community service and monetary fines. The Commission actively assisted the U.S. Attorney's office with the underlying criminal investigation in all five of these cases.

In fiscal year 1992 the Commission filed fifteen cases against firms and/or individuals engaged in telemarketing fraud. The complaints alleged that the firms, and/or their salespersons, made false and deceptive statements and failed to disclose material facts in connection with the solicitation and management of customer accounts related to the offer and sale of futures and option contracts.

*Outreach.*—During fiscal year 1992 seminars on commodity fraud were held in seven states for federal, state, local, and other law enforcement officials and the media. Commission enforcement actions and the prosecution of fraudulent and high-pressure commodity sales techniques were discussed. In past years CFTC enforcement seminars were held on a regular basis to coordinate interagency cooperation with commodity-related fraud. However, only one has been conducted thus far in fiscal year 1993 due to budget constraints. Also, two consumer investment fraud roundtables dealing with affinity fraud—fraud targeted at specific minorities—were held in California.

*Opinions/Operation Backlog.*—During fiscal year 1992 the Commission addressed itself to clearing a backlog of pending matters, principally reparation appeals. A very substantial amount of staff time was devoted to this "Operation Backlog" effort, with some staff members who normally perform other tasks being temporarily as-



signed to considering appeals. This highly successful initiative means that in the upcoming fiscal year, appeals may be assigned to staff attorneys for analysis promptly after being briefed.

*International Activities.*—The Commission completed several international initiatives. For example, the CFTC and the French Commission des Operations de Bourse formally exchanged letters implementing provisions of a 1990 Mutual Recognition Memorandum of Understanding (MRMOU). As a result of the exchange of letters, U.S. futures commission merchants are permitted to market U.S. exchange-traded products in France, and French futures merchants are permitted to market French exchange-traded products in the U.S.

The Commission entered into Memoranda of Understanding (MOUs) for cooperative enforcement assistance and for financial information sharing with the Ontario Securities Commission and Quebec's Commission des Valeurs Mobilières du Quebec. Among other things the MOUs establish a framework for information sharing and for providing enforcement assistance regarding investigations of fraud and manipulation in the offer and sale of domestic and foreign futures and option products, and illegal off-exchange futures and option products.

*Screen-based Trading.*—Trading began on Globex, the electronic trading system of the Chicago Mercantile Exchange, the Chicago Board of Trade and Reuters PLC, on June 25, 1992. Conceived in 1987, the after-hours trading system, with terminals located in Chicago, New York, London, Hong Kong, Tokyo and Paris, began automated trading in futures and options after almost five years of planning. Globex's afternoon and overnight trading is designed to allow European and Far Eastern traders to buy and sell contracts in the U.S. markets during their normal business hours. Also in the screen-based trading area, the Commission approved the plans of the New York Mercantile Exchange to implement its automated ACCESS system in December. Testing is currently in process on this system and the exchange expects the system to be operational sometime during the third quarter of fiscal year 1993.

*Excellence 2000.*—One of the major projects that Commission staff worked on during fiscal year 1992 was a self-study to review and enhance the CFTC's regulatory and managerial efficiency and effectiveness. This project, known as Excellence 2000, was launched to reexamine Commission rules and regulations, and to improve the efficiency of internal Commission processes.

As a part of Excellence 2000, the Commission also solicited comments and suggestions from exchanges and the futures brokerage community on ways to simplify and streamline regulation of the futures industry. Staff continues to review and implement many of the recommendations received, as well as those generated internally.

#### BACKGROUND OF COMMISSIONER ALBRECHT

Senator BUMPERS. Mr. Albrecht, what were you doing before you became a commissioner. I am just curious.

Mr. ALBRECHT. I was at the University of Iowa, as a professor of economics, and associate dean of the business school.

Senator BUMPERS. Are you appointed for a term?

Mr. ALBRECHT. Yes.

Senator BUMPERS. What is the term?

Mr. ALBRECHT. The term expired sometime last month. My current plan is to go back to the University of Iowa in the fall, so I will stay at the Commission until replaced, or sometime in August.

Senator BUMPERS. There are three commissioners, two are the majority party, and one—

Mr. ALBRECHT. At the moment, there are two Republicans, and I am the sole Democrat.

Senator BUMPERS. Are the other two commissioners still on board?

Mr. ALBRECHT. Yes; however, we are supposed to have five. There are two vacancies, and—

Senator BUMPERS. You have five commissioners?

Mr. ALBRECHT. A full complement is five, but right now there are just three of us. There are two vacancies, two Republicans, and one Democrat.

#### FOREIGN TRAVEL

Senator BUMPERS. Mr. Albrecht, there have been a few articles in the newspaper recently critical of the CFTC's abuses of travel, alleged misuse of office space, and its resources.

First of all, how do you respond to those? Are they correct? Are they incorrect? If they are correct, what have you done about them?

Mr. ALBRECHT. Well, I do not think that they actually accused us of abuses of travel. There was a story in the Post, the headline of which was "CFTC Chief's Travel Called Into Question," and pointed out that I had done a fair amount of foreign travel in my time at the Commission. This subject was explored at the House Appropriations hearing as well. I think I satisfactorily answered the questions there.

Almost all the foreign travel I have done has been as a delegate of the CFTC to meetings of the International Organization of Securities Commissions [IOSCO], of which the CFTC is a member of the technical committee, which is the policymaking group of IOSCO. We were asked to join that in 1988, when they decided that they should have a futures regulator on that body.

Wendy Gramm, who was then the chairman, came to me in 1989, about a year after I joined the Commission, and asked me if I would take over the role of representing the Commission at these meetings.

In most cases, it is the chairman of the Commission that goes. The chairman of the SEC is typically there. The chairman of the UK regulatory agency, the chairman of the French regulatory agency, and their other counterparts are usually there.

But she felt that she had so many operational responsibilities, and since a commissioner does not really have any operational responsibilities, that it would be appropriate for me to go. So I agreed to do that.

I have represented the Commission at a number of meetings of the Technical Committee of IOSCO, at the annual meeting, at several working parties of IOSCO. I think that out of those efforts have come some fairly important results, which have been beneficial to the Commission.

We have developed, in part out of personal contact at those meetings, some memoranda of understanding, which enhance our enforcement ability.

We recently had an enforcement case, in which a fine of \$650,000 was levied. That enforcement matter could not have been successfully achieved without some foreign travel. That \$650,000 is more than the CFTC has spent on foreign travel in its entire existence.

We have developed a Conduct of Business Principles for securities and futures firms throughout the world, which have been adopted by IOSCO, and which have been adopted by the CFTC and other agencies. There are a number of other such documents that have come out of this.

So I am quite confident that the travel was appropriate for somebody at the Commission. I am also quite confident that in most of

these instances it was necessary to have at least a commissioner there.

It would have been better, actually, to have had the chairman. We were criticized at times for not having the chairman there. So I am quite comfortable that that was not an abuse, it was quite an appropriate expenditure of funds.

Senator BUMPERS. Were you traveling at Ms. Gramm's insistence? I mean were you requested to go?

Mr. ALBRECHT. In most cases, yes.

#### EFFECTS OF RULE 5

Senator BUMPERS. Mr. Albrecht, a change in the subject slightly. I met with Ms. Gramm in my office last year, because I was upset, and the reason I was upset was because my cotton farmers were upset—

Mr. ALBRECHT. Yes.

Senator BUMPERS [continuing]. About rule 5, and got nowhere with her. But I just wanted to ask you: What has been the effect of this rule? She argued with me, of course, my farmers thought this small fee, it usually amounts to around \$20 a bale, was going to wind up on their shoulders.

If you are a cotton farmer, you do not feel that you can stand another \$20 charge. She thought the price would offset that, so that the farmers really would feel no effect of it.

What is your opinion of what has happened so far?

Mr. ALBRECHT. The issue has quieted. We have heard really nothing about it for some time now. Exactly how that cost has been divvied up among the various participants, I really do not know, but we have had no complaints about it.

Senator BUMPERS. Well, I am not through with it yet—

Mr. ALBRECHT. Yes.

Senator BUMPERS. Until I know more about it.

Mr. ALBRECHT. Well, we would be happy to—

Senator BUMPERS. I would like for you to supply the committee, at the earliest time, a general synopsis of how well it is working. I not only took strong exception to it, because I thought it was burdensome to the cotton farmers, who could ill-afford it, but I also thought it had been implemented as a result of the traders, who stood to gain \$20 a bale. That is not what this committee does. We are not in the business of helping traders at the expense of farmers.

So if you can give me a synopsis of how that has worked, and what the effect has been on farmers' income, cotton farmers' income, we would like to get that at the earliest possible time.

Mr. ALBRECHT. We will be happy to provide that for you.

[The information follows:]

I am pleased to provide the following report prepared by the Commission's Division of Economic Analysis: Background and Current Status of an Amendment to the New York Cotton Exchange's Cotton No. 2 Futures Contract that Concerns the Assignment of Load-Out Charges for Contract Deliveries:

#### *Amendments to Exchange Rules For Futures Delivery*

On April 25, 1991, the Exchange submitted for Commission approval a rule amendment which changed the terms of its cotton No. 2 futures contract as it pertains to futures delivery. The rule change adopted the requirement that, prior to the



delivery of cotton on the futures contract, futures deliverers must pay the charges for loading cotton out of the warehouse into the receivers' means of transportation in addition to certain other fees specified in the Exchange's cotton No. 2 futures contract. Prior to this rule change, load-out charges were the obligation of the receiver and the futures contract specified that the deliverer must pay only the costs of loading cotton into the licensed warehouse, storage costs through the date of delivery, weighing costs, sampling costs and any compression costs. The amendment was approved by the Division Director under the delegated authority in Commission Rule 1.41b on June 5, 1991.

According to information provided by the Exchange in support of the rule change, The purpose of the amendment was to assure that all receivers will pay the same F.O.B. price for delivered cotton. Under the then existing rules, the receiver's costs of loading out cotton were somewhat uncertain because there was substantial variability of load-out charges among the regular warehouses.<sup>1</sup> According to cash market participants who have commented on this aspect of the No. 2 contract in the past and who have commented recently, another way to characterize the rule change would be as "preventing warehouses from holding cotton for ransom" once they had certificated cotton in storage.

The amendment was deemed to meet the requirements of the Commission's Guideline No. 1 because it was " \* \* \* not inconsistent with cash market practice." Further, it did not appear that the change would favor either the short or the long under revised contract pricing and that it had favorable competitive implications relative to warehouse load-out charges for cotton tendered for delivery on the cotton No. 2 futures contract. In regard to cash market practices, trade and USDA sources indicate that practices vary across firms and the U.S. cotton production region, with sellers being responsible for load-out costs in some areas and buyers being responsible for such costs in other areas.

In reviewing the rule change, the Division also considered that the major impact of the rule change was to reallocate to the deliverer the responsibility for paying the costs of load-out, which should have the effect of increasing futures price levels by a compensating amount (i.e., one which is approximately equal to the costs of loading cotton out of the warehouse).<sup>2</sup> In the past, the Division has observed that the assignment of delivery costs to the party who is in position to negotiate with the provider of the specific services is desirable from the standpoint of maintaining competition in the futures deliver mechanism. In this case, it is the seller rather than the buyer who chooses the delivery facility and, hence, is in a position to negotiate prior to placement of the cotton in storage.

The amendment was not published in the Federal Register for comment in view of the consideration that the amendment would have a predictable effect on the pricing basis or hedging characteristics of the futures contract and the Exchange's representation that the amendment would not be applied to existing positions in the futures contract. In addition, the amendment was made effective on October 1, 1992, which is the first delivery month in the marketing year and, thus, did not affect pricing relationships within a crop year.

#### *Concerns Received by the Commission after Approval*

Approximately one year after the Commission's approval of the amendment, the Commission received inquiries expressing concerns about the effects of the amendment. The majority of the concerns related to conditions in the cash market, rather than the cotton No. 2 futures contract. Specifically, it was noted that some cotton cash market trading organizations, which do not submit their rules to the Commission or approval, had amended their rules or procedures to adopt substantially the same terms for the trading of cash cotton as those adopted by the Exchange for futures trading.<sup>3</sup> Concerns also were expressed that these changes by cash market en-

<sup>1</sup> Alternatively, as noted below, the short is in a position to ascertain the costs of load-out in advance of placing the cotton in a particular warehouse.

<sup>2</sup> This is because cash/futures market arbitrage would force futures contract prices to reflect the value of cotton F.O.B. buyer's truck or rail car rather than "in store" within the warehouse.

<sup>3</sup> In this respect, the Division understands that the Memphis Cotton Exchange (MCE) amended its rules to specify that cash market trading pursuant to MCE's rules would take place under the terms of its Rule 5 rather than Rule 3. Rule 3 specifies delivery F.O.B. warehouse, while Rule 5 specifies delivery F.O.B. buyer's transportation. Rule 3 was deleted from the MCE's rulebook on August 1, 1992.

Controversy regarding the application of Rule 3 versus Rule 5 has existed for many years independent of the provisions of the futures market. However, it has been alleged that adoption of the provisions in Rule 5 by the Exchange made possible the implementation and enforcement of Rule 5 by the Memphis Cotton Exchange and its member merchants over the objections of producers. In regard to this matter, the Division understands that the MCE's rules are simply



tities would have an adverse financial impact on cotton producers by reducing net prices received by producers. Finally, concerns were voiced that the changes in cash market trading rules would increase the average producer prices reported by the U.S. Department of Agriculture (USDA) with a resultant negative affect on the level of U.S. farm program deficiency payments.

In regard to effects on the pricing of cotton, concerns were expressed that cotton futures prices have failed to reflect fully the additional costs incurred by futures deliverers for load-out costs and, as a result, that producers who sell cotton based on futures prices will not recover this cost. Data from an analysis of futures price relationships which existed during the transition period for the revised rules is not consistent with the assertion that cotton futures prices have failed to fully reflect the additional charges that futures deliverers will have to pay for the load-out of delivery cotton from warehouses. In fact, the limited available empirical data is more consistent with the expected shift in the price basis of the contract. We have provided this analysis to those parties expressing this particular concern.

Complaints also were made that, even if futures prices increase to levels that fully reflect the costs of loading cotton out of warehouses, cotton merchants have not increased their offering prices for cash cotton to reflect fully the additional costs incurred by cotton producers for the load-out of cotton from warehouses (i.e., the cash-futures basis has increased). Due to the wide variety of factors which can affect the cash/futures basis at particular locations, we have not attempted to document the basis for this concern, but several plausible explanations may exist for such a development. For example, an increased basis during the delivery period could result from the adoption of the above-noted futures and cash market rule changes if load-out charges at the futures contract's delivery points exceed load-out charges at other locations. In this case, the appropriate futures market price adjustment to the changed rules at the contract's delivery locations would have been larger than cash market price adjustments at other locations, and the basis would widen. In addition, of course, an increased cash-futures basis at particular locations could occur in response to a variety of factors, including geographic shifts in relative supplies, shifts in the geographic pattern of demand (i.e., domestic versus export) and the overall production consumption balance. More importantly, from the facts and statements presented by various market participants, this change in cash market trading rules should not have altered the producer's competitive position. Essentially, producers must negotiate with or choose among warehouse operators for the lowest warehousing costs, including handling and storage charges. In the absence of any structural shifts in the industry (i.e., fewer merchants), it does not appear that this rule should have altered the basic competitive position of either merchants or producers. Thus, the Division has not been able to find a plausible economic reason why the pricing effects of the rule changes in the cash market should favor either buyers or sellers.

#### *Events and Observations Since Implementation of the Rule Change*

According to close observers of the cash market in the Memphis and Mid-South area who were recently contacted by the Division, the terms of Rule 5 (seller pays for load-out) have been generally adopted by merchants, although some small merchants who operate warehouses have not adopted Rule 5. In addition, these sources indicate that a major cotton marketing cooperative in this area also has not implemented Rule 5 terms. In those cases where the change has not been implemented, the reason cited is generally that producers have resisted it.

These same cash market sources also indicated that there do not appear to have been any effects on the cash-futures spread. The only change that appears to have taken place with respect to prices is that the futures price now apparently generally reflects the cost of load-out, which means it is higher than it would have been under the old rule. This change is apparently as predicted, and has not affected the pricing or hedging utility of the contract.

The final concern noted above pertained to the impact of Rule 5 on cash prices used to determine USDA deficiency payments to cotton producers under the terms of the Federal price support program. In particular, as noted, the shift from Rule 3 to Rule 5 should have resulted in an increase in cash cotton prices quoted to producers. As a result, there was some concern on the part of producers that this shift would reduce deficiency payments, if cash prices were reported to USDA on the basis of Rule 5 as opposed to Rule 3, since the calculation of such payments are based in part upon the level of USDA reported cash prices for cotton in relation to a statutorily mandated target price for cotton. Information received from USDA in-

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guidelines for cash market contracts and are not legally binding upon any cash market participants.

dicates that, beginning with the 1992/93 crop year, it has changed its price collection procedures so that the cotton prices upon which deficiency payments are based exclude the costs of load out. According to a representative of the USDA, no difficulties have been observed with respect to the new reporting regime, and deficiency payments do not appear to have been noticeably affected. Definitive analysis of the effects of the revised reporting regime will not be possible until there has been substantially more than a few months' experience with it.

#### *Summary*

In conclusion, the Division has found no evidence which would support the view that the rule change will result or has resulted in lower cash prices to producers. In addition, as noted, USDA has taken appropriate action to minimize the likelihood that the above-noted changes in cash pricing practices will affect the level of deficiency payments to cotton producers under the Federal farm programs.

#### COTTON CERTIFICATION PROPOSAL

Senator BUMPERS. I am also concerned about the proposed resolution by the New York Cotton Exchange that would prohibit the certification of cotton that is a part of the Commodity Credit Corporation loan stocks. What is the rationale behind this proposal?

Mr. ALBRECHT. Their rationale is that it would level the playing field, and that it would——

Senator BUMPERS. How does it level the playing field, Mr. Albrecht?

Mr. ALBRECHT. Senator, I am not sure how it levels the playing field.

Senator BUMPERS. Do either one of these people with you have the answer to that question? Is there nobody here in the cotton business?

Mr. ALBRECHT. This is now in the comment phase, and the comment period has just closed. I have looked at several of the comment letters. I have not looked at them in great detail.

Senator BUMPERS. Let me ask you again, if you would, just send the committee a narrative on this——

Mr. ALBRECHT. Sure.

Senator BUMPERS [continuing]. Telling us what you think the rationale for the proposal is, and what the impact on cotton storage costs is going to be. When will we get a final ruling on this, if nothing happens?

Mr. ALBRECHT. Assuming that there is no change by the Exchange, and they do not withdraw it, we have to make our ruling by September 7 on that. So our staff is beginning to look at the question.

Some of the comment letters have been very favorable. Many have been very much opposed to it. It is an issue that we are just beginning to come to grips with, because the comment period has just closed.

As you probably know, when the submission was made initially, our staff sent it back to the Exchange, because they thought it was not properly justified.

Now, it has been put out for comment and the comment letters have come in. So, absent a withdrawal of the petition by the Exchange, we would have to rule on it by September 7.

Senator BUMPERS. Well, if you would, please put something in writing for us that——

Mr. ALBRECHT. I would be glad to.

Senator BUMPERS [continuing]. Gives us the rationale, and what you think the benefits of it are.

Mr. ALBRECHT. I guess I need clarification. Would you want us to do that before we make our ruling or after?

Senator BUMPERS. I would like to see it within 2 weeks of this day.

Mr. ALBRECHT. Thank you.

[The information follows:]

Again, I am pleased to submit the following synopsis prepared by the Commission's Division of Economic Analysis concerning the pending rule proposal for the New York Cotton Exchange:

The Exchange's proposal is to prohibit cotton that is serving as collateral for a CCC loan from being certified for delivery on the cotton contract, as long as it remains under loan. Before cotton could be certified for delivery on the futures contract, it would have to be redeemed from the loan program.

In its submission, the Exchange indicates that the proposed amendment is intended to preserve the status quo that existed prior to the enactment of the agricultural legislation now in effect and thereby promote economic competition on the contract by alleviating certain advantages that only cotton producers and producer marketing cooperatives enjoy under the current Exchange rules and the terms of the Federal government's cotton price support program. In particular, the Exchange noted that current cotton price support program terms provide for the waiving of storage and interest costs by the Secretary of Agriculture for cotton under loan when the price support program's "adjusted world price" for cotton is below the program's loan rate. The Exchange also indicated that these advantages to producer groups represent a threat to orderly trading and delivery in the futures market and create the potential for such disruptive price effects as artificially depressing or squeezing futures prices. The Exchange has characterized the proposed amendment as placing all market participants on an "equal footing."

The amendment was first proposed in correspondence dated August 13, 1992, but the Division of Economic Analysis subsequently remitted the proposal to the Exchange in a letter dated September 21, 1992, for its failure to adequately justify the proposal.

The proposed amendment was resubmitted by the Exchange on March 10, 1993, and is currently under review by the Division.<sup>4</sup> The proposed amendment was published in the Federal Register, with a request for public comment, on April 8, 1993. Eighteen comment letters have been received by the Commission.

The comment letters responding to the Federal Register notice were submitted by 11 producer organizations, 2 cotton merchants, the American Cotton Shippers' Association, one farmer/ginner, a group of 3 agricultural economics professors, and two U.S. Senators.

The merchants, including the American Cotton Shippers' Association, favor the proposed amendment for many of the same reasons that the Exchange gave for proposing it. In addition to the reasons provided by the Exchange, the commenters provided the following reasons, among others, for approving the proposal:

- The practice of certifying cotton for futures delivery which simultaneously is under CCC loan is not consistent with cash market practices.
- The provisions of the CCC loan program may at times discourage delivery of loan stocks which have been certified for futures delivery.
- Orderly trading and delivery will be threatened due to the large percentage of loan stocks controlled by cooperatives.
- Adoption of the proposed amendment is necessary to avoid potential manipulation that can now occur through the anti-competitive coordination of market positions with the acquisition of government subsidies.
- Cotton should not be certified for futures delivery until it has been freed from the CCC loan program and financed exclusively through private loans.
- Allowing certified stocks to be directly influenced by the CCC loan program will discourage speculation and hinder the futures contract's liquidity.
- Failure to adopt the proposed amendment would create additional costs to the Federal Government by encouraging the entry of certified cotton into the CCC loan program.

<sup>4</sup> Provided the Exchange does not modify or withdraw the proposed amendment during the review period, the Commission will be required to complete its review by September 7, 1993, the end of the Commission's 180-day statutory review period.



All other commenters, including all of the producer organizations, oppose the amendment. The reasons for opposition include:

- the assertion that it is unnecessary and discriminatory against producers,
- that the proposal would in fact disturb the actual status quo under the 1985 farm bill,
- that the method of financing of inventories should have nothing to do with whether or not cotton is eligible for certification,
- the proposed amendment would confer an advantage to merchants,
- the proposal could reduce deliverable supplies,
- the proposal could reduce marketing flexibility for producers,
- the CCC program can be used by all segments of the industry—even though some may choose not to use it directly,
- the proposed rule would prevent certain producers from being eligible to receive full program benefits (CCC loans, for example) and at the same time being active participants in the cotton futures market,
- the proposed rule would create an inconsistency in value between cotton in the cash and futures markets,
- cash market cotton prices could be reduced under the proposal.

The comment period on the proposal ended officially on May 10 and comments were received through May 13. The Division is currently reviewing the information contained in the Exchange's submission, the comment letters and obtained independently from trade sources, and is preparing a recommendation for Commission consideration. Factors which will be considered in the course of evaluating the Exchange's proposal are:

- conformity of the proposal to cash market practices, and the effect of the proposal on the economically available deliverable supply for the futures contract;
- the potential impact of the certification for futures delivery of stocks under CCC loan on contract pricing and orderly trading.
- The requirement under Section 15 of the Commodity Exchange Act that the Commission endeavor to take the least anticompetitive means of achieving the objectives, policies and purposes of the Act in approving any proposed rule of an exchange.

#### TRANSACTION FEE

Senator BUMPERS. The administration is proposing a transaction fee on all futures and options deals. Are you familiar with that?

Mr. ALBRECHT. Yes; very much.

Senator BUMPERS. That is supposed to generate \$55 million in 1994. First, I want you to describe for me how the fee will work, and, second, do you think it is going to generate \$55 million in additional revenues?

Mr. ALBRECHT. Well, the fee would simply be 14 cents on each round turn.

Senator BUMPERS. On each—

Mr. ALBRECHT. On each buy-and-sell transaction.

Senator BUMPERS. OK.

Mr. ALBRECHT. I believe it is projected that volume will be something in the range of 360 million contracts. I believe that will generate about \$55 million, if volume rises somewhat, as is anticipated.

One never knows, however, what volume will be. The tax itself could affect volume. It could drive business elsewhere. It could be that prices will not be very volatile, and there will not be as much business. It could be that prices will be volatile, and there will be more business.

Senator BUMPERS. Well, you know, the traders are squealing like a pig under a gate, and they say this is going to keep them from being competitive in international markets.

Mr. ALBRECHT. Right.

Senator BUMPERS. I take it you do not agree with that.



Mr. ALBRECHT. The position at the Commission on the tax is that we do not oppose the tax. It has been proposed for the last 3 or 4 years, and that has been our position.

I recognize, and I think the Commission recognizes, that any increased cost is a burden, and it may well drive some business elsewhere. It may well curtail business.

Senator BUMPERS. What is the average size of those 360 million transactions each year? Do you know the answer to that?

Mr. ALBRECHT. The average size?

Senator BUMPERS. In dollars.

Mr. ALBRECHT. I have no idea. It is kind of an apples and oranges question, because some of these contracts are relatively small in dollar value, and some of the contracts are relatively large in dollar value.

Senator BUMPERS. It does not seem very high to me, 14 cents a transaction, and you are correct, that will generate about \$55 million. Of course, that does not take into account anything for the administration of that, either.

Mr. ALBRECHT. No.

Senator BUMPERS. I think the administration is counting on \$55 million net, and they have held you to \$100,000-and-some increase next year, so if you look at that, of course, it would be almost a \$55 million net increase.

#### PROPOSED LEGISLATION

Has any legislation been proposed to the authorizing committees for the implementation of this, or do we need authorizing legislation?

Mr. ALBRECHT. Let me see. Ewen, what is the situation on that?

Senator BUMPERS. Does anybody in this room know the answer to that?

Mr. ALBRECHT. It has not been proposed.

Senator BUMPERS. Pardon?

Mr. ALBRECHT. It has not been proposed.

Senator BUMPERS. Well, the second question is: Is it necessary, or does the Commission have the authority to do this?

Mr. ALBRECHT. We do not have the authority.

Senator BUMPERS. You do not?

Mr. ALBRECHT. We do not.

Senator BUMPERS. And so it would require legislation, correct?

Mr. ALBRECHT. Yes.

Senator BUMPERS. But you do not know if any has been proposed or not.

Mr. ALBRECHT. It has not been proposed.

Senator BUMPERS. Senator Cochran.

#### COTTON INDUSTRY ISSUE

Senator COCHRAN. Mr. Chairman, thank you very much. I want to associate myself with the remarks of the chairman with respect to the issue affecting the cotton industry.

This is a very controversial and contentious matter with many in the industry, particularly the producers. So I want to reinforce the

request the chairman has made for a report on the status of that, and what rulemaking is anticipated.

#### FUTURES MARKET SHARE

On another subject, I have been told that we are seeing an erosion of our market share of worldwide futures trading activity, is this correct?

And what, if anything, do you see is the cause for this? Is there anything in our regulatory system that is driving persons to other markets to purchase futures contracts, or engage in investing in the market?

Mr. ALBRECHT. It is true that for some time now, at least for the past 10 years, the share of the world market, held by the U.S. futures and options exchanges has declined.

At the same time, the absolute volume of business done by these exchanges has risen substantially. I believe that the major cause of the decline of the market share is simply the fact that 10 years ago we were the only game, not in town, but the only game in the world.

There were not any viable futures exchanges elsewhere. Between 20 and 30 new exchanges have been started throughout the world in the past 20 years, and they are now gaining business.

So when you start from a base of 100 percent, and all of a sudden you have some competitors, you are going to lose your market share. I believe that is the major cause, and I think that it is probably a mistake to focus solely on the market share issue.

#### REGULATORY BURDENS

However, and, again, if I can speak more from a personal point of view, than representing the CFTC, I do believe that in some instances our regulatory burden is more severe than that imposed in other countries, and I, myself, have been doing some things to try to get us to address that issue. I think we can use our new exemptive authority in some instances to address that issue, and help make us more competitive.

It is not only a matter of being more competitive internationally, but it is a matter of helping U.S. exchanges be more competitive with their domestic over-the-counter competition.

Senator COCHRAN. The new exemptive authority that the CFTC was granted in the legislation that was passed last year has been exercised, I understand, in the area of swaps and hybrids.

Mr. ALBRECHT. That is right.

#### EXEMPTIVE AUTHORITY

Senator COCHRAN. Could you give us your views of this new rule as well as the future likelihood of extending the exemptive authority to exchange-traded swaps and swap clearinghouses?

Mr. ALBRECHT. Well, we did exempt swap transactions from the Commodity Exchange Act, with the exception of still maintaining some fraud oversight over those markets. Hybrids have been exempted on the grounds that they are basically regulated by another agency, so we do not have any oversight over them.

And then we also granted an energy exemption, I believe, last month. And there are a couple of proposals, either within our staff, or that have been presented to us, for extending this to exchange-traded instruments.

The Chicago Mercantile Exchange has submitted a request for an exemption for its new rolling spot contract. This is a currency contract, which is designed to compete with currency transactions in the interbank market, because most of the currency transactions, which are of a futures-like characteristic, are actually off-exchange.

That petition is before the Commission. They are asking for an exemption from all the provisions of the Commodity Exchange Act, except our antifraud and antimanipulation authority.

I hope that we will get that out for comment fairly soon. I believe that this is an important enough issue that it is my responsibility to try to get it out for public comment as fast as possible, but I hope that there will be a new chairman and a new commissioner on board before a final rule in this matter will be issued.

#### SRO RESPONSIBILITIES

Senator COCHRAN. You indicate in your written testimony submitted to the committee that you are reviewing some cost-saving options because of the budget constraints, maybe transferring some regulatory responsibilities to self-regulating entities, and possibly figuring out a way to administer the reparations program in a less costly way.

What specifically do you have in mind with respect to regulatory functions being transferred, or reparations program cost savings?

Mr. ALBRECHT. The National Futures Association would be the self-regulatory organization that we are primarily talking about. The NFA currently performs much of the registration function for the industry.

We could shift more of that to them. I do not know if there is anything magic about the existing division of responsibility between the CFTC and the NFA.

There is currently some joint effort in the area of reviewing disclosure documents by commodity pools. The NFA would also be quite willing, I think, to take on additional responsibility in that area.

We would work with them to shift some of that responsibility there, which makes sense, even in the absence of any budget constraint. It is the sort of thing that should always be under consideration, however, this has focused our attention on it.

#### REPARATIONS PROGRAM

As far as the reparations program is concerned, I think that is a very vital part of the Commission's function. Reparation complaints have declined somewhat in recent years. Let me explain by example.

We currently have two types of judges. We have administrative law judges [ALJ's] and judgment officers. Administrative law judges have to hear any case in which the claimed damage is \$10,000 or more.

That is a figure that was established a long time ago. Perhaps we could raise that to \$25,000. The cost of a judgment officer hearing a case is less than the cost of an ALJ hearing a case. That would be one way in which we could change that.

We could perhaps examine the fees that we charge for reparations, and see if those fees are appropriate, given today's prices.

Senator COCHRAN. Thank you, Mr. Chairman.

Mr. ALBRECHT. Thank you.

Senator BUMPERS. Senator Bond.

#### CONCLUDING REMARKS

Senator BOND. Mr. Chairman, I appreciate the fact that you and the ranking member have asked the questions with respect to cotton. I have a number of questions on the next panel, and I am under the threat of having to be called to the floor by the majority leader. So I will pass on questions for this panel.

Senator BUMPERS. Senator Bond, you are my new favorite person in the whole world. [Laughter.]

#### SUBMITTED QUESTIONS

Thank you, Dr. Albrecht. We will possibly submit some additional questions to you in the next few days. I will give the committee members 4 or 5 days to do that. We will hope to get a prompt response to those questions. Thank you and your assistants for being with us this morning.

Mr. ALBRECHT. Thank you very much.

[The following questions were not asked at the hearing, but were submitted to the agency for response subsequent to the hearing:]



## QUESTION SUBMITTED BY SENATOR KOHL

## ]Nonfat Dry Milk and Cheese Futures[

Question: The CFTC will soon be voting to approve the trading of nonfat dry milk and cheese futures on the Coffee, Sugar, and Cocoa Exchange in New York.

There has been a lot of criticism of the National Cheese Exchange in Green Bay, Wisconsin for its lack of regulation, and the potential for domination of the market by a few large traders.

I am hopeful that the Coffee, Sugar, and Cocoa Exchange might become a more viable price discovery mechanism for dairy products. Dairy farmers and consumers alike need to know that the markets are fair. I would like to know what ongoing oversight the CFTC will be providing to assure that there is no undue domination of the market by large traders at the Coffee, Sugar, and Cocoa Exchange?

Answer: The regulatory structure that the CFTC has in place, from the initial approval of the contract to the continuing market surveillance on the contract, is designed to ensure that the futures marketplace is fair to all traders regardless of size.

Before the Commission approves a futures contract to trade, Commission staff review the terms of the contract to determine, among other things, that the terms of the contract reflect cash market practices and that there is adequate deliverable supply of the commodity.

In addition, the CFTC's surveillance program is designed to detect large positions that have the potential to cause a price distortion. To accomplish this task we receive reports every day showing us the positions of large traders. Our economists analyze these positions looking for potentially dominant positions. In particular, we look for positions that are large relative to other positions in the market and relative to potential deliverable supply of the commodity. Our economists also analyze prices and price relationships, both in the futures market and in the underlying cash market, to determine if there is any indication of price distortions.

Each exchange is also required to have in place a surveillance program to detect potential manipulation. In addition, the CFTC has approved rules for these contracts of the Coffee, Sugar & Cocoa Exchange that impose limits on the size of speculative positions. Pursuant to its rules, the Exchange may grant exemptions to these limits for bona fide hedging and other risk offsetting strategies. The Commission conducts periodic rule enforcement reviews to ensure that the exchanges have programs in place to enforce their rules, including rules related to price manipulation and position limits.

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 QUESTIONS SUBMITTED BY SENATOR COCHRAN

## ]Reauthorization Study[

Question: The Conference Report accompanying last year's Futures Trading Practices Act of 1992 directs that the CFTC, in cooperation with the SEC and the Federal Reserve, conduct a one year study of whether a single regulator should oversee the trading markets. Is this study underway? What will this study look at?

Answer: The Conference Report directs that "the Commission...conduct a comprehensive study to determine: (1) the size, scope, activities, and potential risks presented by the markets for swaps and other off-exchange derivative financial products; (2) the need for additional regulatory controls that should be applicable to the products described in paragraph (1); (3) how any such regulatory controls could be implemented in a cost-

effective manner; (4) the public policy implications of the decisions in [A-Mark Precious Metals and Tauber]; and (5) whether a single Federal regulatory agency should regulate the exchange or off-exchange trading of, and markets for, futures, options, swaps, derivative products, and securities."

Upon passage of the Futures Trading Practices Act of 1992, the Commission initiated a study to address these issues through: (1) an analysis of the various risk issues giving rise to concern; (2) a survey of market participants to evaluate market activities including risk control mechanisms; (3) an overview of regulation of off-exchange derivatives both domestically and internationally; (4) an evaluation of existing accounting issues for off-exchange derivatives; (5) a discussion of the implications of A-Mark Precious Metals and Tauber; (6) descriptions of off-exchange derivatives products; (7) an analysis of market size and scope; (8) case studies of significant defaults; (9) evaluation of arguments for and against a single regulator; (10) description of the functions of derivative product companies; and (11) an evaluation of the informational role of off-balance sheet disclosures of derivatives positions through econometric analysis.

We anticipate that the final report will reflect this information as well as any additional information that the Commission determines to be necessary to meet the goals of the study. The Commission expects to complete the report in October 1993.

#### ]Budget Request[

Question: The budget justification indicates that the Commission voted to request \$58.273 million for fiscal year 1994 to fund a total of 632 staff years and other increases in operating expenses. This original CFTC request is \$10.788 million and 78 staff years above the fiscal year 1994 request approved by OMB and included in the President's budget.

What are the specific differences between the President's fiscal year 1994 request and the original request approved by the Commission.

Answer: The Commission requested a budget of \$58.3 million and 632 staff years in September of 1992. That request was made to restore funding cuts in FY 1992 and to provide resources to implement the anticipated reauthorization legislation.

However, the President's FY 1994 Budget request for CFTC is \$47,485,000. It is based on CFTC's FY 1993 budget of \$47,300,000 plus increases for inflation and mandatory increases (\$2,131,000) and reductions for the eliminated 2.2% pay increase (\$1,008,000) and the President's Executive Order mandated overhead decreases (\$938,000) resulting from a lower FTE ceiling.

The specific staff reductions in the Commission's programs resulting from this cut are detailed in my prepared testimony.

#### ]FTE Level[

Question: The fiscal year 1994 request is \$47.485 million. You indicate that while a staff ceiling of 554 full-time equivalent (FTE) positions is requested for fiscal year 1994, the funding will support only 521 FTE positions.

Why is the fiscal year funding request shown to fund a level of 554 FTE positions if it really supports only 521 FTE positions?

Answer: The 554 FTE ceiling is based on the Executive Order FTE ceiling reductions -- 1.0% in FY 1993 and another 1.5% in FY 1994. The 568 FTE base for the reduction was 1% below the estimated FY 1993 FTE usage at that time.

The CFTC's budget was held constant at the FY 1992 level, \$47,300,000, in FY 1993 and increased only \$185,000 to \$47,485,000 in FY 1994. Consequently, the Commission has implemented significant cuts in administrative spending and imposed a virtual hiring freeze to avoid a RIF and furloughs. Depending on our success in continuing to hold the line on expenses, as well as other

factors, such as our attrition rate, we estimate the Commission will be able to fund only 521 FTEs.

]Excellence 2000[

Question: You indicate that Commission staff continues to review and implement recommendations generated as part of Excellence 2000, CFTC's self-study to review and enhance regulatory and managerial efficiency and effectiveness.

What are some of the significant recommendations of Excellence 2000 which the Commission is implementing?

Answer: It has streamlined Commission Guideline No. 1, which establishes the criteria for the review of new contract submissions by the exchanges. The revisions to Guideline No. 1 have lead to a more efficient contract designation review process and have contributed to the designation of a record number of contracts in the past year.

-- The Commission has taken actions that have greatly reduced reporting level burdens. It has eliminated most filings of hard copy market activity reports, relying instead on electronic filings. This change has reduced the number of required documents filed with the Commission by over 1.275 million pages annually. The Commission has also reduced reporting burdens through the harmonization of CFTC and exchange reporting levels. The CFTC has also issued rules that have reduced the burdens associated with cash position reporting by persons seeking a hedge exemption, which has resulted in cost savings for both the industry and the CFTC.

-- The CFTC has also amended Rule 1.31 to permit electronic record-keeping for certain required records. This will provide an opportunity for futures commission merchants and exchanges to reduce the expense and burdens of recordkeeping. The CFTC is also reviewing issues related to electronic filing of documents which, in addition to cost savings to firms and exchanges, would allow the CFTC to review and process the information in the documents more efficiently.

-- Through the adoption of CFTC Rule 4.7, the Commission has significantly reduced the disclosure, reporting, and record-keeping burdens on registered commodity pool operators offering pool participations to certain highly qualified investors.

-- The Commission issued Interpretative Letter 92-9 on June 3, 1992, which made it clear that a registered commodity pool operator may use a two-part disclosure document, provided both parts of the document are delivered simultaneously and the first part of document contains all disclosure required by CFTC rules except the performance history of the fund's trading advisors. This new disclosure format will afford pool operators an opportunity to reduce reproduction costs.

]Appeals Backlog[

Question: You indicate that the Commission addressed itself to clearing a backlog of pending matters, principally reparation appeals, during fiscal year 1992 and that this "Operation Backlog" effort has been highly successful. What reductions in backlogged matters have been achieved through this initiative?

Answer: The staff resources devoted to Operation Backlog during fiscal year 1992 resulted in the disposition of 43 reparations cases. The number of pending appellate reparations cases at the end of fiscal year 1992 was 28 compared to 101 such cases pending at the end of fiscal year 1991. At the end of fiscal years 1990 and 1989, the numbers were 89 and 95, respectively. The number of Commission opinions and orders issued in reparations cases for fiscal year 1992, including those for Operation Backlog, was 128, compared with 46 in fiscal year 1991. The magnitude of the reduction in case backlog can be seen by comparing the numbers of reparations cases appealed to the Commission in fiscal years 1992 and 1991: 49 new cases were received in 1992 and 48 in 1991. As of

April 30, 1993, there are 16 reparations cases pending on appeal before the Commission. The reduction of the backlog in reparations appeals has significantly decreased the time involved between the Commission's receipt of an appeal and its disposition. Currently, the Commission's reparations docket consists of one case appealed in fiscal year 1990, four appealed in fiscal year 1992, and eleven in fiscal year 1993.

]Futures Trading Practices Act of 1992[

Question: The Commission is working to meet the requirements and deadlines imposed by the Futures Trading Practices Act of 1992 signed into law last year. Are there any requirements of that Act which the Commission will be unable to comply with given the budgetary constraints imposed by the fiscal year 1994 request?

Answer: The Commission has already met all of the requirements and deadlines which we were required to meet within 180 days. We will strive to meet the rest of the mandated deadlines for conducting studies and rulemakings.

The Futures Trading Practices Act of 1992 authorized a funding level of \$60 million. We believe Congress wanted the CFTC to increase its staff and oversight so the new provisions of the Act could be implemented effectively. Much of the real work in administering the new Act follows the completion of the rule-makings and the studies. It is really too early to determine the full impact of these budget constraints on these new programs.

As I indicated in my testimony, the Commission is reviewing all of its programs and will attempt to carry out its responsibilities within its allocated resources in an efficient manner.



## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### FOOD AND DRUG ADMINISTRATION

#### STATEMENT OF DAVID A. KESSLER, COMMISSIONER

#### ACCOMPANIED BY:

JANE E. HENNEY, M.D., DEPUTY COMMISSIONER, OPERATIONS

CAROL R. SCHEMAN, DEPUTY COMMISSIONER, EXTERNAL AFFAIRS

MARY JO VEVERKA, SENIOR ADVISER, MANAGEMENT AND SYSTEMS

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DENNIS WILLIAMS, DEPUTY ASSISTANT SECRETARY, BUDGET, DEPARTMENT OF HEALTH AND HUMAN SERVICES

#### INTRODUCTION OF WITNESS

Senator BUMPERS. Our next hearing is on the Food and Drug Administration. Our next witness is Dr. David Kessler, the Commissioner of the Food and Drug Administration.

The budget request for FDA totals \$670 million in appropriated funds. This is a reduction of \$109 million from 1993. But the President proposes to levy user fees and generate \$254 million in additional funds for the agency.

As a result, an overall increase of \$109 million would be achieved if these user fees were realized. I must emphasize that \$200 million of the user fees are not authorized. Furthermore, FDA itself maintains that it could not put together a new user fee plan to generate the \$200 million in 1994, so this budget proposal is very suspect.

#### PREPARED STATEMENT

Dr. Kessler, we have your full statement before us. It will be made a part of the record in full. If you can summarize your statement, that would be of considerable assistance to us.

Dr. KESSLER. Mr. Chairman, I am willing to even go further. Senator Bond said that there were some time constraints. I think that I would be very happy to tell you where FDA has been, where it is going, but the written statement, I think, could suffice, if there are time constraints on the committee.

[The statement follows:]

#### STATEMENT OF DAVID A. KESSLER

Mr. Chairman, I appreciate the opportunity to appear before the subcommittee today to discuss and support the programs of the Food and Drug Administration. Before we begin, I want to introduce my colleagues at the table with me.

Other members of my staff are also present to respond to your questions.

Mr. Chairman, the American public expects, and deserves, assurance from FDA that their foods and cosmetics are safe and properly labeled and that their drugs and medical devices are safe and effective. Over the last year we have continued

to make changes at the agency so that we could meet those expectations. Our challenge is to keep serving the public health, to be on the cutting edge of science, and to meet the changing requirements of the vast industries we regulate—and to do this as well as possible within the resources available.

How big is this job? Simply stated, it's enormous. FDA is responsible for regulating products worth about \$1 trillion—the equivalent of about 25 cents of every dollar spent by American consumers. Most of the FDA regulated industries are small and face increasing competition from foreign enterprises, rapidly evolving technologies, and increasing costs. For example, over 70 percent of the nearly 60,000 food industry firms we regulate have fewer than 20 employees. Nevertheless, FDA regulated industries are among the most successful world-wide, and this is at least in part because our laws require high science-based standards for product quality, performance and safety. But this is just one dimension of our responsibilities. FDA must assure the public of the safety, and in many cases the effectiveness, of the enormous production of these industries.

Each year the appropriations hearings provide an opportunity to recap our past activities, to focus on changes, and to discuss the challenges we face and our approaches to meeting them.

One event of 1992 illustrates the nature of FDA's mission, the commitment of the people of FDA, and the dedication of a field force of which I am—and everyone can be—most proud. This event was Hurricane Andrew.

FDA's Miami office, located at the Miami International Airport, was undamaged by the hurricane but had no power or water. On August 26, the Miami office resumed limited operations and available staff began the arduous job of assessing the damage to FDA-regulated industry in the area.

Miami is a major port for imported seafood and other highly perishable products. With the loss of the international airport facilities and the damage to local refrigerated and frozen food storage facilities in South Florida, products destined for the U.S. market began to back up in foreign ports. Bolstering FDA's Miami import staff were import specialists from Tampa; the Atlanta, Dallas, Baltimore, and Philadelphia districts; and our Southeast Regional Laboratory, who established a makeshift import examination station in the parking lot of the Cargo Clearance Center adjacent to Miami International Airport. They examined hundreds of lots of perishable imported products for any sign of decomposition or other contamination before releasing products for shipment to other cities.

In cooperation with other State and Federal officials, FDA staff visited hundreds of firms to assure that products manufactured or stored there remained safe, wholesome, and uncompromised. All of the blood and plasma centers were contacted immediately to verify that the blood supply remained safe. As reliable sources for much needed pharmaceutical products were verified, this information was fed back to the Federal Emergency Management Agency and the Public Health Service Officials who were responsible for getting these products to the people who needed them. Within three weeks, almost 700 FDA-regulated firms were visited and 1.4 million pounds of distressed goods were destroyed.

The hurricane also affected operations in Louisiana. FDA's New Orleans District, in close cooperation with Food and Drug and Seafood Units of the Louisiana Department of Health and Hospitals, and the Louisiana State Board of Pharmacy conducted operations similar to those in Miami. Federal-State teams visited approximately 400 companies across southern Louisiana and isolated areas of concern in the less seriously damaged areas. These teams quickly and efficiently moved to prevent adulterated products from being distributed to American consumers, and to help businesses return to normal operations.

Mr. Chairman, the professionalism and dedication illustrated by this event transcends all product areas and programs throughout FDA. They have applied to every high priority activity and change in the agency over the past two years.

I am pleased to report significant progress. In particular I want to mention three areas that I have discussed with the subcommittee before—product review, management, and enforcement.

Turning to PRODUCT REVIEW, we continue to sustain and build on past successes.

—FDA approved 387 new drug, generic drug, and biologic product applications during calendar 1992—a 15-percent increase compared with 1991. Among the important new drugs approved last year were six new drugs potentially valuable in the fight against AIDS (three biological products for diagnostic tests; Hivid for treating advanced HIV infection; Mepron for pneumocystis carinii pneumonia; and Mycobutin, an anti-infective agent for patients with advanced HIV), Taxol for ovarian cancer, and Intron-A for hepatitis B.

—The important new biologics include two vaccines, Diphtheria and Tetanus Toxoides and Acellular Pertussis Vaccine (DTAP), and Japanese Encephalitis Virus (inactivated) Vaccine—Trademark JE-VAX. The earliest possible development and delivery of safe and effective vaccines is one of our highest priorities. We were pleased to be included in the President's initial 1993 supplemental appropriations request for enhancement of our Nation's childhood immunization programs, and continue to urge favorable Congressional action on this important national priority.

We have been just as active on the MANAGEMENT issues confronting the Agency.

—We are getting new regulations out faster than ever before. The massive food labeling regulations illustrate this point. The new food label is a major public health legacy, ensuring that consumers get the kind of information they need about the products they use. But in addition, we are moving on other fronts, such as regulations to implement the Safe Medical Devices Act; final regulations on accelerated approval for drugs to treat serious and life threatening illness; and guidance to the industry on such matters as pediatric labeling and continuing medical education.

—The leadership in the Agency continues to evolve with the appointment of two new Center directors in the last year: Dr. Kathryn C. Zoon, Center for Biologics Evaluation and Research; and Dr. D. Bruce Burlington, Center for Devices and Radiological Health.

—We have significantly reorganized the Center for Biologics Evaluation and Research, and the Center for Food Safety and Applied Nutrition, to optimize and streamline review processes; maintain and foster stronger applied research programs; and build a closer integration of science and policy. These changes reflect initiatives that prepare us to meet the challenges of the 90's and on into the 21st century.

—We are continuing to strengthen the scientific underpinnings of the FDA, including refocusing the National Center for Toxicological Research to integrate its research capability with the needs of our Centers and field operations.

When it comes to ENFORCEMENT of the statute, it's fair to say that over the past two years we have reemphasized that FDA is an agency that vigorously enforces the Federal Food, Drug and Cosmetic Act.

—We have had some major specific successes, such as Operation Gold Pill. In collaboration with our colleagues at the FBI—dealing with such criminal acts as tampering, drug counterfeiting and drug diversion—we are enforcing the Prescription Drug Marketing Act.

—We have strengthened our ties with the individual states, their Attorneys General, health officials, and state food and drug officials. Likewise, we have strengthened our Federal relationships with the SEC, the Customs Service, and USDA.

—To complement the regular FDA field force, we've created an Office of Criminal Investigations. At the end of 1992, thirty new special agents began intense training at the Federal Law Enforcement Training Center in Glenco, Georgia. They now staff criminal investigation offices in several cities. We are dedicated to continuing and strengthening this effort.

—We have substantially increased our foreign inspection programs, which is important in light of the increasing number of manufacturing sites overseas and the increasing volume and varieties of imported products.

Let me now turn to a question that is looming before us as we enter this new Administration. What are our biggest challenges for the near- and long-term future. While the challenges are many, I want to focus specifically on three of them—medical devices, vaccines, and imports.

#### MEDICAL DEVICES

An area of the agency facing enormous challenges and increasing workload and responsibility is medical devices. This program oversees an almost infinite range of diverse products that includes pacemakers, hip replacements, intraocular lenses, breast implants, a vast array of diagnostic devices such as the recently approved home cholesterol tests, and state-of-the-art medical imaging equipment. This represents an enormous span of technology and complexity. Even more simple technologies such as latex gloves and condoms often present formidable challenges for which today's science may not have complete answers on what risks as well as what benefits these devices have.

America's medical device industry is large, rapidly growing, and pioneering a continuing stream of innovative products. It constitutes about 20,000 firms, and over



75 percent of them have fewer than 20 employees. Four of the 10 fastest growing manufacturing industries in the U.S. manufacture medical devices, according to data from the Department of Commerce. Further, this is one of the few manufacturing industries where the U.S. has maintained a positive and growing trade balance. However, both we and the industry face enormous challenges as well as responsibilities. Keeping pace with this industry has become increasingly more difficult for us.

For example, there has been growth both in the number of submissions and the volume and complexity of their contents. As a result of the Safe Medical Device Act of 1990, FDA is implementing a vast array of new statutory requirements that mandate resource-intensive premarket review and postmarket surveillance tasks. Most recently FDA has been experiencing unprecedented oversight in the device review process, which has both taken time from the review process and resulted in even more new requirements.

All of this has had a profound effect on the program. Prior to 1992, FDA was able to review most of the simpler applications we receive, 510(k)'s, within 90 days, and the more complex applications, PMA's or Pre Market Applications, within 180 days. The number of applications that exceeded these review times could be counted in the single digits. Over the last year, however, our review times have been lengthening, along with our backlog of submissions in-house beyond our statutory review times.

We have been trying to manage this changing situation by redirecting resources within the medical device program. But this effort is falling far short of the demands, requiring the additional resources included in our 1994 request to address this program's most urgent needs and significant recent legislative mandates.

We are clarifying product evaluation requirements for the industry, to improve the quality of manufacturers' submissions and reduce the number of costly review cycles. We are also improving our communication with the industry on the status of applications. And we continue to look for efficiencies wherever possible. What the industry really wants, however, is evidence of predictability restored to our review process—a reasonable expectation of just how long our review process will take, and what they can expect. We want to get there just as much as the industry wants us there.

Another challenge in the arena of medical devices is the number and significance of non-review responsibilities. As just one example, I cite mammography. Since 1945, breast cancer has been a leading cause of cancer deaths among women. Mammography, or x-ray breast examination, remains the best available method for detecting breast cancer at its earliest stages. Early detection is critical in reducing both the mortality rate and the severity of the patients' treatment.

For mammography to achieve its potential benefit there must be an accurate interpretation of high quality images produced with minimum radiation exposure. This requires examinations to be conducted by properly trained personnel using equipment that is specifically designed for mammography. The detection of breast cancer via mammography is a challenging process. Even with good quality images and skilled personnel, it is estimated that 5 to 15 percent of cancers will be missed. But inadequately used or maintained equipment and improperly trained personnel will cause the rate of cancers that are missed to be much higher.

Since 1975, FDA has been in the forefront of efforts to improve both the quality and safety of mammography. These efforts have included reducing the exposure to radiation during mammography, improving the quality of the image produced, improving the ability of the radiologist to read and interpret mammograms, and contributing to the development of an integrated U.S. system of diagnosis and treatment of breast cancer. Recognizing many of these important issues, Congress passed the Mammography Quality Standards Act of 1992.

This Act, which became law last October, requires the Secretary of Health and Human Services to issue standards for equipment, quality assurance programs, and personnel and to provide for accreditation, inspection, and certification of mammography facilities. FDA has been given primary responsibility for its implementation. The Act establishes a number of ambitious, if not impossible, deadlines for various actions, and requires that each facility receive a certificate from the Secretary by October 1, 1994.

#### VACCINES

A second important challenge facing FDA today is ensuring the safety and efficacy of vaccines. Immunization has emerged as a major public health priority both in this country and internationally. FDA scientists play a critical role in bringing safe and effective vaccines to children and adults.



Our involvement with vaccines spans a wide area—from the science required to develop and evaluate the products, through the testing, post-marketing surveillance, and updating of labeling for physicians.

The story of FDA's multi-faceted role is really the story of the dynamic field of vaccine development. First let me highlight four aspects of vaccine development which define much of our work.

First, public and private sector scientists are using highly sophisticated new technologies to develop vaccines. Last year about one-fourth of the new vaccine INDs we received involved these technologies. I'm referring to recombinant DNA techniques, for example, or new methods to stimulate immunity.

Second, scientists are seeking to improve existing vaccines. A good case in point is the pertussis vaccine which has been associated with increased numbers of adverse effects.

Third, preventive and therapeutic vaccines for AIDS are being developed and tested. These are scientifically challenging vaccines, requiring specialized scientific skills and technologies.

Fourth, there is increased interest in combination vaccines with the new safety and efficacy questions they raise.

What does this mean for us? It means that we must have sophisticated scientists who can provide guidance in the many new challenging and complicated aspects of vaccine development. Scientists who can set standards and develop assays to assess the safety and effectiveness of these products. Scientists who can work with sponsors to ensure that the clinical trials will address all areas of concern.

FDA scientists have made major contributions to the science involved in developing and evaluating these new vaccines.

Our work on an acellular pertussis vaccine, for example, brings this country one step closer to retiring the problematic whole cell DPT vaccine.

In a few months we will be sponsoring a scientific symposium to evaluate the special issues raised by combination vaccines.

And as these new products are introduced, we must monitor them through an increasingly sophisticated adverse event reporting system, including VAERS.

We are also being called on to provide technical assistance for international programs aimed at increasing immunization rates. We are working closely with the World Health Organization (WHO) and the Pan American Health Organization, and FDA has been involved in vaccine development programs in several foreign countries.

Immunization goals in this country require an active role for FDA in ensuring that the supply of vaccines used to meet our goals meets our safety and efficacy standards.

Our work in vaccines increasingly provides many challenges—both scientific and in terms of the resources needed to get the many parts of our job done.

#### IMPORTS

Next, let me talk about imports. The number of imported products under FDA's jurisdiction has been increasing each year. Entries of FDA regulated products exceed 1.5 million per year. FDA has the resources to sample and analyze only about 52,000 entries, and to visually examine another 90,000. This results in a combined examination and sampling rate of about 10 percent. Our task is to target that 10 percent effectively.

About 85 percent of the imports under our jurisdiction are food items. More and more of the food Americans eat is imported. Our inspectors are looking for problems such as adulteration, decomposition, and contamination, which threaten the safety and wholesomeness of the food supply.

Given the increase in imports, the challenge for us is to make sure that we are making the best use of the resources we have. And that means devising and putting in place the most effective and efficient inspection and enforcement strategies possible to monitor these products.

This is an important priority for the Agency. Let me tell you some of what we have already done.

—We have zeroed in on what FDA and the Customs Service call "bad actors."

These are importers who repeatedly bring in violative products. Warning letters have gone out to nearly 75 such importers. We are singling them out for attention in our sampling and examinations and, where conventional import coverage fails to correct the problem, we still pursue further legal sanctions, including injunction and criminal prosecution.

- We have identified potential problems with specific products and looked closely at those imports. In the past year, for example, we completed an import initiative to examine ceramicware for excessive lead levels.
- Together with the U.S. Customs Service in Seattle, we are pilot testing a computerized system to screen import documents. Rather than have FDA staff review all import papers to determine which items should be examined, information is sent to a computer which does the initial screening based on criteria developed by FDA.
- Over the past several years a lot of time, money, and effort has gone into developing our Import Support and Information System (or ISIS) to make our inspection system more efficient. Although this system has had the expected fits and starts for a system of this magnitude, I'm pleased to report that we are committed to turning that system on during this fiscal year.

In our effort to strengthen our inspection system, we have strengthened our working relationship with the U.S. Customs Service. We are not only talking but working together to assure that both our agencies needs are served.

In conclusion, Mr. Chairman, I would like to summarize our supplemental appropriations requests for 1993, as well as our budget request for 1994.

The President's 1994 Budget transmitted two non-economic stimulus 1993 supplemental proposals, which are deficit neutral as proposed. First, we are requesting Congressional action to effect appropriation transfers to FDA in the amount of \$3 million; with \$1 million each coming from the Centers for Disease Control and Prevention, the Health Care Financing Agency, and the National Cancer Institute of NIH. The second FDA proposal for 1993 is to initiate the extremely important Prescription Drug User Fee Act of 1992, which passed Congress last October. This Act authorizes the collection of user fees for prescription drugs and biologicals to augment the base level of Agency resources dedicated to their review. While the statute provides specific levels of fees beginning with 1993, it also requires that the total revenue level to be collected for each fiscal year be established by an appropriations act.

Turning to 1994, our total request is for \$924.3 million. This includes a deficit reduction proposal of \$200 million in user fee collections for FDA activities currently funded by appropriations and \$54 million in additive revenues authorized by the Prescription Drug User Fee Act to support enhancements in the human drug and biologics review programs. In addition our 1994 budget requests \$23 million for additional payments to the General Service Administration for rent, and program increases of \$67.6 million above currently appropriated resources in 1993. To summarize these—the 1994 budget requests program investments, including 1993 supplemental resource requests, of \$34.6 million to enhance and accelerate FDA's immunization activities; \$13 million to materially implement the Mammography Quality Standard Act of 1992; and, \$20 million for our Medical Device Program to enable the Agency to keep pace with expansion of the industry, emerging technologies, and to move toward fully implementing the provisions of the Safe Medical Devices Act of 1990.

This concludes my prepared remarks, Mr. Chairman. I will be happy to answer any questions you or any other members of the Committee may have.

#### BIOGRAPHICAL SKETCH

DAVID A. KESSLER

As Commissioner of the Food and Drug Administration, David A. Kessler guides an agency that monitors foods, cosmetics, animal drugs and a wide variety of medical products, prescription and nonprescription. All told, FDA has an impact on the safety and value of about 25 percent of what the American consumer purchases. Dr. Kessler took over as FDA Commissioner on December 3, 1990.

Both a Harvard-trained physician and a university of Chicago-trained lawyer, Dr. Kessler brings a breadth of research, educational, professional and administrative experience to this post.

Administrative experience. From 1984 until his FDA appointment, Dr. Kessler was medical director of the Hospital of the Albert Einstein College of Medicine in the Bronx, N.Y. He helped establish the hospital's medical and pediatric emergency/evaluation units. During his tenure, the medical service was consolidated, and a blood donor facility and an adult dialysis program for children was expanded. Under his leadership, physician assistants were brought into the hospital's teaching program in what has become a model for teaching hospitals in New York State. And Dr. Kessler built the hospital's current quality assurance system.

Dr. Kessler holds hospital appointments at the medical center and teaching appointments in pediatrics and in the department of epidemiology and social medicine. He was awarded an advanced professional certificate from the New York University Graduate School of Business Administration in 1986.

Dr. Kessler brings to FDA a breadth of experience in FDA issues, having written in the New England Journal of Medicine and other professional journals on food labeling and safety, drug and medical device issues. He has chaired the drugs and biologics subcommittee of the Food and Drug Administration—a group of experts reviewing the resources, mission and organization of the agency. He continues on the committee as a non-voting member.

Since 1986, Dr. Kessler has taught food and drug law at Columbia University School of Law in New York City.

From 1981 to 1984, Dr. Kessler was a consultant on FDA-related issues to Senate Labor and Human Relations Committee Chairman Orrin G. Hatch.

A pediatrician, Dr. Kessler did his internship and residency at Johns Hopkins, Baltimore. Despite his schedule as medical director at the Albert Einstein Hospital, Dr. Kessler made it his business to see sick children in one of New York's municipal emergency rooms each week.

He is also one of the authors of "Caring for the Elderly; Reshaping Health Policy," John Hopkins university Press.

He was Phi Beta Kappa and was graduated magna cum laude with a bachelor of arts by Amherst College in 1973; with an M.D. from Harvard Medical School in 1979. An attorney, he was graduated and with a doctor of law (J.D.) from the University of Chicago Law School, where he was an associate editor of the University of Chicago Review, in 1978.

Dr. Kessler was born May 31, 1951, in New York City. He is married to attorney Paulette Steingberg Kessler. They have two children, Elise and Benjamin.

#### GENERAL QUESTIONS

Senator BUMPERS. That is fine. We appreciate that. Thank you very much. Please proceed, Dr. Kessler.

Dr. KESSLER. I am willing to dispense with the oral remarks entirely, Mr. Chairman.

Senator BUMPERS. And just start with the questioning?

Dr. KESSLER. Certainly.

Senator BUMPERS. You just replaced Senator Bond as my new favorite person in the whole world. [Laughter.]

There is no telling how many hours are wasted on statements that everybody has read or do not want to hear. Everybody here knows pretty much what they want to talk to you about.

Dr. KESSLER. And I am prepared.

#### USER FEES

Senator BUMPERS. The first thing I want to talk to you about are user fees. You would agree that user fees are going to have to be authorized, would you not?

Dr. KESSLER. We worked very hard, Mr. Chairman. I spent 4 months last year working with the Congress on the authorization of the Prescription Drug User Fee Act. Everybody came together, industry, the Congress, and the executive branch, to work on that authorization. Dennis Williams is the Deputy Assistant Secretary for Budget in the Department. Let me let him answer that question.

Mr. WILLIAMS. The budget request is based on a generic user fee authority that already exists in the executive branch, and so we are not seeking additional authorizing legislation for the \$200 million, but it would require some action by the Appropriations Committee.



Senator BUMPERS. Dennis, let me ask you and Dr. Kessler, let's go through this so the record is very clear to the members of the subcommittee and to anybody else who pays attention to the record.

The President is asking for \$200 million in 1994 from user fees. Now, we passed a user fee act last year. I forget the name of it, something act of 1992. As I understand it, you expect to raise \$54 million from that act in 1994, and the President is asking for an additional \$200 million in user fees for that year, and that is where the \$254 million comes from.

Now, the administration has also proposed \$109 million, I believe it was, less for you than you got this year, 1993, but giving you the \$254 million, which the administration says you can raise, that gives you a total increase for 1994 of what, \$109 million, is that correct?

Now, what I want to know is: No. 1, how much are you going to collect under the 1992 act in this year, 1993? No. 2, how much do you hope to raise in 1994, under that act? Is the \$54 million realistic?

And No. 3, is the \$200 million in user's fees for 1994 realistic? Forget the authorizing. We will take care of whether it needs to be authorized or not. Are the questions all clear now?

Dr. KESSLER. I think they are very clear, Mr. Chairman. Let me take the first crack, and Mr. Williams can add on.

Yes; there is a supplemental request to the President. It is \$36 million, to begin in 1993. The collection of user's fees is realistic. We are geared up. We have task forces and are prepared to accelerate the drug approval process, if that money becomes available. This is very realistic.

In 1994, the President has asked for \$54 million for user's fees. I think that is very realistic. We are ready to acquire space and start hiring. People want to come work at the agency, and we are ready to reduce the review time it takes to bring new important drugs to the market.

The \$200 million is to address a major concern that the entire public and the Nation has about reducing the deficit. In light of everybody having to make sacrifices, deficit reduction is the No. 1 issue that the President cares about.

We all have an obligation to do whatever we can. Is it going to cause us to push the limit somewhat to get it up and running? Absolutely. But the overriding concern right now is the reduction of the deficit. And to the extent that this contributes, we have to do our share.

#### PREScription DRUG USER FEE ACT

Senator BUMPERS. Now, you are asking for \$36 million, under the Drug Prescription User Fee Act, whatever it is, of 1992. You are asking for \$36 million in the supplemental appropriation—

Dr. KESSLER. Yes, sir.

Senator BUMPERS. For 1993.

Dr. KESSLER. Yes, sir.

Senator BUMPERS. Are you prepared to start collecting that?

Dr. KESSLER. Absolutely.



Senator BUMPERS. Do you think that is a reasonable figure that you can get?

Dr. KESSLER. Absolutely. That was the result of very intense analysis over a number of months between the Congress and the executive branch, and the industry is ready to pay that amount. We are prepared to use that amount and dedicate that amount to the speeding up of drug approval in this country.

Senator BUMPERS. How many more employees are you going to have to do that?

Dr. KESSLER. Ultimately, under the Prescription Drug User Fee Act, it rises to 300, made up of reviewers and direct support staff, in drugs, with another 300 in biologics. That is by the fifth year of the program. I do not have the number for 1993 right in front of me.

Senator BUMPERS. Has OMB signed off on that?

Dr. KESSLER. Yes, sir.

Senator BUMPERS. What, if any, impact is the collection of these fees in 1993 going to have on your review process?

Dr. KESSLER. We have committed to expediting the review of drugs for life-threatening diseases. We have agreed that all those drugs will be reviewed by years 4 and 5. At the end of the program we will have review times of 6 months for all important drugs, and 12 months for any drug.

#### DRUG APPLICATION REVIEW

Senator BUMPERS. Those were good answers on user fees. I hope this all works out very well for you. You seem to be very confident that you are going to be able to accomplish not only what you are required to accomplish under the 1992 act, but for 1994.

Dr. KESSLER. Mr. Chairman, there was a debate that raged for the last 15 years about drugs taking too long to get approved in this country.

That debate has given way to a grand experiment, and it's a grand experiment in mutual cooperation between the Congress, the industry, and the FDA. We are coming together and saying that the most important thing is to maintain the quality of the review.

We need to keep the quality of the review where it is, and, in fact, to continually increase the quality of our scientific review because we set the goal standard.

It is interesting, the Japanese, the European Community, everybody wants to rival the kind of drug regulatory authority that we have in this country, and be the gold standard. And we are the gold standard, because of the quality.

When a drug is approved in this country, it becomes an international blockbuster because it is safe and it works. It sounds very basic. But go abroad. You can buy drugs, you know, 30 or 40 drugs in some countries are being sold for Alzheimers. Do any of them work? No.

When a drug is approved in this country, it works. I think that contributes enormously to the public's health. That is the prime reason. But it also contributes to the international competitiveness of our pharmaceutical industry.

Everybody came together and we have a 5-year grand experiment. We are very committed to making this work. Ms. Veverka,

who is a senior advisor for management at the agency, has spent virtually all her time, over the last 7 or 8 months, gearing up for this user fee.

It is a very important step. I hope it is a model that can be used, not only by us, with regard to other programs, but also with regard to other Government programs.

Senator BUMPERS. Dr. Kessler, I am the new boy on the block as chairman of this subcommittee, but I am going to tell you something, you will not get any squawk from me about the time it takes to review an application.

The most important function you have is to make sure that that drug is safe. If you can do that in an expedited time, that is all to the good. But your first responsibility, of course, is to make sure that the public's health is protected.

We all want these new drugs. You are under tremendous pressure, I know, on some of these AIDS drugs to short-circuit, and in that case, I do not know, that is a highly sophisticated argument, but if you are the victim of AIDS, you do not want to deal with the sophistries and the fine points.

You want to try whatever you think might save your life. I know that the pharmaceutical companies have squawked for years about the length of time it takes. And I know you have cut down on the time that it takes.

But I also know, for example, that Gino Tech, and whoever makes, is it streptokinase, or whatever it is, I know that lawsuit has been going on for a very long time about which of those two heart drugs is the most efficacious.

Dr. KESSLER. I think Gino Tech makes NTPA. Streptokinase is the competitor, and that is the battle that is going on. Streptokinase and NTPA.

Senator BUMPERS. There is nothing wrong with licensing both the drugs.

Dr. KESSLER. Absolutely.

#### FOLIC ACID

Senator BUMPERS. That is an in-house fight between them as to which one is better. That is like, you know, whether you take Excedrin, or Aspirin, or something else.

Let me ask you a question along the lines of efficacy and safety. I understand that in most cases, women who are enrolled in the WIC Program, if they get prenatal care, the doctors prescribe, usually prescribe, a prenatal multivitamin supplement.

Now, is there a proven connection between the use of a folic acid-containing multivitamin supplement taken during the early weeks of pregnancy and the prevention of birth defects?

Dr. KESSLER. There certainly is strong epidemiological evidence. Let me answer it this way, Mr. Chairman, which I think is the best answer.

I prescribed, and made sure my wife was taking multivitamins in the early phases of pregnancy. Yes; I think there is no question that all women of childbearing potential should make sure that they have appropriate nutritional intake.

Senator BUMPERS. What is the Public Health Service's recommendation with regard to these vitamins for pregnant women and lactating mothers?

Dr. KESSLER. It is that all women of childbearing potential receive 400 milligrams of folic acid a day, as a minimum.

#### FOOD ADVERTISING

Senator BUMPERS. If we gave the Food and Drug Administration, if we took away from the Federal Trade Commission, and gave to your department, the jurisdiction over advertising of foods—first of all, would you like to have that jurisdiction?

Dr. KESSLER. Mr. Chairman, right now I have responsibility for all food, except meat and poultry, all drugs, all devices, all cosmetics, all blood, and all vaccines. "Sixty Minutes" told me I had jurisdiction for a police radar gun, cellular phones—

Senator BUMPERS. Did that come as a surprise to you, or did you know that?

Dr. KESSLER. No; it rekindled the fact that we do have jurisdiction over radiation-emitting devices, that are electromagnetic field generating devices. I am very committed to making sure that the American public gets accurate information about the food that they eat.

The Nutritional Labeling and Education Act, Mr. Chairman, that the Congress passed is an important landmark. It may be one of the most important things in the last decade that FDA has done. That nutritional information needs to be accurate, and it needs to be accurate with regard to both advertising as well as on the label.

The American public does not want to be mislead. Just tell them the truth, that is all they want. It does not make a difference who does it. I have enormous respect for Chairwoman Steiger, but advertising and labeling have to be accurate.

#### IRRADIATION OF FOOD

Senator BUMPERS. I will ask one other question, and we will go a second round in a moment, and I will defer to my ranking member. But I do want to ask you this, Dr. Kessler.

We got into this last week with the Agricultural Research Service. They strongly recommended that I defer those questions to you. It deals with the irradiation of food.

Now, let me ask you, first of all: Do you approve irradiation of a product on a product-by-product basis? If the answer to that is yes, what precautions do you make, or what do you have to conclude before you approve a product for being irradiated?

Dr. KESSLER. Mr. Chairman, we approve irradiation on an application-by-application basis. We issue regulations establishing safe conditions of use which are sometimes broad, and applicable to many foods, and sometimes narrow. Irradiation is approved for pork, for the control of trichinosis; for poultry, for foodborne pathogens; for herbs and spices, for microbial disinfection; and for foods such as grain, for the disinfection of insects.

We also have limited uses for the prevention of sprouting, or the delay of ripening of fresh fruits and vegetables. It has to be safe,



and not alter the nutritional composition of the food in any significant degree. That is the requirement.

Senator BUMPERS. Did you just give me a list of the things that you have approved so far?

Dr. KESSLER. That is correct. Those uses have been approved.

Senator BUMPERS. Is it possible to irradiate a food while it is still growing? Tomatoes? Brussels sprouts?

Dr. KESSLER. I would have to supply that for the record. Dr. Shank, from our Center for Food Safety, is here, if you would like for him to respond.

Senator BUMPERS. Would you come up here and take a seat, please? Would you state your name for the record, please?

Dr. SHANK. My name is Fred Shank, Director of the Center for Food Safety and Applied Nutrition.

Senator BUMPERS. Did you hear the question?

Dr. SHANK. Yes; I think it would be impractical to irradiate a product while it was growing in the field. Workers would need to be shielded from the radiation and doses large enough to accomplish a useful purpose in the food could be expected to kill the plant.

Senator BUMPERS. Let me ask you: How many applications do you have pending from people who want to irradiate their food?

Dr. SHANK. Mr. Chairman, I cannot give you an exact number of applications that are pending. I do not think that there are a large number in the area of irradiation, however.

Senator BUMPERS. Let me ask you: First of all, are you a specialist in this field? What is your background?

Dr. SHANK. I am a nutritionist by training, food science, in general.

Dr. KESSLER. Mr. Chairman, Dr. Shank is the Director of our Center for Food Safety, so he is responsible for anything that comes within the jurisdiction, of which irradiation is one item.

Senator BUMPERS. When did the radiation first surface as a potential food preservation process?

Dr. SHANK. I cannot give you the exact date, but our first regulations go back 30 years.

Senator BUMPERS. The Agriculture Department testified last week that 25 percent of the food produced in the world is lost either to rot or to pests. They say that irradiation holds the potential for eliminating virtually all of that. Do you agree with that?

Dr. SHANK. Yes, sir; irradiation could make a substantial contribution to the prevention of the conditions that you mentioned.

Senator BUMPERS. Have you approved any fresh foods, fruits, vegetables, and so on, for irradiation?

Dr. SHANK. We have approved irradiation of fresh produce, such as strawberries, and fresh fruits and vegetables for the control of pests and to inhibit ripening and sprouting.

#### IRRADIATION

Senator BUMPERS. Do you have any requirement that any signs be posted in the grocery store, notifying the customer that foods have been irradiated?



Dr. SHANK. Yes, sir; that is a requirement. We have a logo as well as a requirement of the statement that it has been treated with ionizing, or radiation, or something to that effect.

Senator BUMPERS. Now, there is a nuclear material component in irradiation, is that correct?

Dr. SHANK. Yes, sir; that is one way to irradiate food.

Senator BUMPERS. Where is it? Just tell us generally how it works. You are talking to a real layman, so make it simple.

Dr. SHANK. Well, there are two means of irradiation. One uses electronic beams, or x rays which do not use nuclear materials, and the other popular form uses cobalt 60. The latter one that I mentioned is the one that people are tremendously concerned about, relative to what might be some inappropriate practices, or some accidents in the environment.

Senator BUMPERS. When you mentioned cobalt, you know what that signifies to me, that means a cancer treatment, and heavy doses of radiation.

Dr. SHANK. Well, this is the same radiation source. It is a technical area, but I can assure you that there are safeguards in place to provide for the safety of the people running irradiators. As the Commissioner said, once the food has been irradiated, it is safe. It is not a radioactive substance.

Dr. KESSLER. Mr. Chairman, let me just explain. The source generates the radiation. I mean that may be what you are referring to as nuclear.

Senator BUMPERS. I understand.

Dr. KESSLER. The food in no way is radioactive. That is very important. It is no more nuclear than an x-ray machine that I would use to do chest x rays on kids. In many ways, it is no different.

Senator BUMPERS. Dr. Kessler, of course, I would not want to eat foods that have been x rayed. I may do it, but I would not want to.

Dr. KESSLER. Well, let us go through that.

Senator BUMPERS. I mean when that doctor jumps behind that lead shield, I have a feeling there is something is wrong—

Dr. KESSLER. No; I am just drawing the analogy. It is a different radiation source and a different radiation frequency. But just because you use that to sterilize the product does not convert that product in any way to any kind of additional frequency. I mean the strawberry that gets irradiated is not radioactive.

Senator BUMPERS. The environmentalists are going berserk about this, as you know. Let me ask you this. Would it be fair, for example, if you had a nuclear submarine, and you have a nuclear reactor that is totally contained, and you have 110 or 120 men on a submarine around that, and it produces a propulsion system, but the nuclear radiation itself is contained, I get the impression here that that is not a very good analogy, though, is it? When you talk about irradiating something, it is not just a heat process, it is radiation.

Dr. KESSLER. Mr. Chairman, let me give you an experience that I had when I was running—

Senator BUMPERS. Let me ask you a question, Dr. Kessler. Forgive me for interrupting you. But if this is absolutely safe, why are we not irradiating everything?

Dr. KESSLER. The environmentalists raise three concerns. Two I take exception to, one I agree with. One, they say the product that gets irradiated, the strawberry, is dangerous. No; that is not the case.

Two, after you irradiate the strawberry, it may change its nutritional content. Yes; that is true. There are some technical changes, but they are not significant. So that is not an issue.

The third issue they raise is that irradiation is not the answer to all food safety questions. On that one, I agree. It is an important tool for certain aspects of ensuring the safety of the food, but it should not be used as a way to allow other substandard practices to be undertaken.

That is where I agree. You do not want to have people becoming sloppy in their processing plants, just because they know, well, in the end they could irradiate the food, because, again, it is one tool, but it is not the whole answer.

#### IRRADIATION FACILITIES

Senator BUMPERS. We had testimony last week that there are only two plants in the United States, and one is an experimental one at the University of Iowa, and the other one is, I believe, in Florida, is that correct?

Dr. SHANK. The University of Florida also has an experimental program similar to that operated by the University of Iowa. I believe the Florida plant you referred to is the only commercial facility dedicated to irradiating food and other agricultural products.

Senator BUMPERS. Do you have to ship the food to Florida, or can you do it anyplace?

Dr. SHANK. You can only irradiate in a facility that is properly licensed, and you have mentioned two of those that exist, for foods. There is not a tremendous demand at this point in time, for a number of reasons, that we have been discussing here this morning.

Senator BUMPERS. Senator Cochran.

Senator COCHRAN. Mr. Chairman, because of Senator Bond's restraints, I am going to yield to him.

#### BOVINE SOMATOTROPIN [BST]

Senator BOND. I thank the ranking member, and I would like to associate myself with the chairman's comments on implementing user fees, it is the wrong direction to go.

Dr. Kessler, I certainly would agree with you on the high regard that the world has for U.S. products. I think that is because we do use sound science. One of my major concerns is that we continue down the path that you have outlined, of making our decisions based on sound science.

I understand that there is no scientifically measurable difference between BST-supplemented cow's milk and those that do not receive BST. Is that your understanding?

Dr. KESSLER. Senator, the review of BST is underway, and a number of applications are pending. We have had certain advisory committees that have looked at the issues, and have looked at specific portions of the issues. I am personally involved in reviewing

data myself, but I am not prepared to draw any conclusions before that review is complete.

Senator BOND. I understand that the National Institutes of Health has stated that there is no difference. The Journal of American Medical Association and Congress's Office of Technology Assessment have said it is safe. So will you make a decision based on sound science?

Dr. KESSLER. Absolutely.

Senator BOND. If sound science says that there is no difference, then I assume that you would make that finding, just assuming for the moment, since you have not completed the review.

Dr. KESSLER. The determination has to be based on several factors. One, is the product safe, with regard to the animal that is receiving it; two, and even more importantly, is it safe to the humans that will end up consuming it?

That is obviously the major part of the review, and it focuses on those questions regarding the animal, and the human population consuming the milk.

#### LABELING OF BST

Senator BOND. I understand that there were 2 days of hearings on the subject of whether to require labeling of BST. Unless you find there is a difference between milk from cows that have not received BST, and those that normally generate BST, why would there be a question of labeling?

Dr. KESSLER. The issue is whether there is material fact, that, because of the consequences, upsets use. I asked the advisory committee to be convened to look at that question.

The advisory committee was split on the question. There are those who say there is no difference. There are others that say there is an increase in mastitis and an increase of risk of antibiotic use.

Some say the difference is just technical. Some say the difference does not exist at all, and some say the difference is significant. So that advisory committee was very split.

It is interesting, though, and it goes outside of the agency's purview, that many members of that advisory committee did vote, in general, that they thought it was a public policy matter. Disclosure to the American public ends up being something that really does need to be thought about.

Senator BOND. But your agency is not to make that public policy judgment. Your agency is to make the judgment based on science, and whether there is a judgment.

Dr. KESSLER. The requirements of labeling include consideration of whether there are any new material consequences associated with consumption.

That judgment is a scientific decision, but there are obviously policy aspects so the science never matches 100 percent with the statute. You have to be able to take the science and reach the statute, but it is a scientific decision.

Senator BOND. But do I understand you to say that, while I know some would say, and some of my colleagues in this body might say that for social and economic reasons, there should be labeling. That is not a decision to be made by your agency, is that correct?



Dr. KESSLER. Senator, that would be a decision that would be made by the body I am sitting in front of. I think the social and economic issues are not issues that the agency deals with or is good at dealing with.

There is the issue of how safety is defined, and the law requires the product to be safe. Safety, in general, is a risk/benefit analysis.

The risks we are good at. The benefits are a little harder to be able to articulate in a drug that is for production. For therapeutic uses, the decision becomes easy. You weigh the risks of the drug versus the potential benefits of the drug.

If you have a 20-percent chance of recovering from a tumor, and there is a 1-percent risk that you will get some kind of side effect, that decision becomes easy. Production drugs are a lot more complicated.

#### LABELING

Senator BOND. The point remains that, should we require, for economic and social reasons, should there be labeling?

I would say that if we decided that for economic and social reasons we ought to label how things are produced, we could consider whether hybrid corn should be labeled as hybrid when you buy it in the supermarket, as opposed to some natural corn.

You can go down the line, and, for political, social, or economic reasons, impose requirements that do not have anything to do with the basic safety standards that you are pursuing.

Dr. KESSLER. Senator, you are right on point. There are consequences, and we have heard them, because we did have public discussion, and many people came in and raised issues to go outside of the jurisdiction of the FDA.

That is not to say those are unimportant issues. That does not say that there are not consequences. Whatever decision we make on BST, economic and social consequences simply are not the statutory standard by which we judge. The issue on labeling is whether the failure to disclose would be material based on the consequences of use.

Senator BOND. In terms of the product——

Dr. KESSLER. That is correct.

Senator BOND. Not in terms of the economic or social.

Dr. KESSLER. That is correct. The issue of whether it would affect small farms adversely, that is not something that we would consider. That is not part of our statute.

#### 510(K) PROCESS

Senator BOND. Mr. Chairman, I have a couple other questions related to this issue that I will submit for the record. Mr. Chairman, also, you brought up the question of nutrition for pregnant women. I have a question on birth defects and folic acid that I would like to submit for the record.

I would like to turn now to another very serious area that concerns a different set of people in my State. Over the last 2 weeks my office has been contacted by more companies with complaints about the Food and Drug Administration than we have had in the previous 2 years combined.



These are not the big drug or the device companies that everybody hears about, but the complaints come from small drug and device companies whose very survival has been threatened by the tactics of the FDA and its inspectors.

Dr. Kessler, I will tell you quite frankly, these companies are terrified of the FDA. They have called us and said because of the threat of retaliation, they have begged us not to identify who they are, because they believe that there are those in the FDA who, if they challenge the FDA on the basis of the scientific assessment of their product, that they are going to be subjected to regulatory harassment, and to a broad series of actions taken to harm them that do not have a direct relationship to the activities under supervision.

I think this is a frightening prospect. I call this to your attention, because in this area, unlike other areas, we have seen people laid off, their jobs threatened.

These companies believe that they have not been treated fairly, that the time lines prescribed for FDA review have not been met, but it is their belief that if questions are raised on their behalf, that they are going to suffer.

I would tell you that that, to me, is unconscionable. We are going to continue to review that. If we find instances where that continues to happen, we will take whatever action we can.

I would like to point out, call to your attention, and to the attention of this committee, an article that appeared in The Los Angeles Times-Mirror of April 30. I am sure you are aware of it.

It is about a retired police officer whose doctor claims he cannot return to work, because there has been an unconscionable delay in approving a diamond tip surgical drill to unclog his arteries. I would offer this, and ask later for your response to the concerns noted in the article.

But I do want to address one particular instance from my State. A small company has a 510(k) medical device approval pending. I understand that by law the reviews are to be taken in 90 days, is that correct?

Dr. KESSLER. Under the 510(k) process the applicant must demonstrate that the device is "substantially equivalent" to a device already on the market. The device cannot be marketed until FDA specifically approves the 510(k), even if it takes longer than 90 days.

We generally intended to do a 90-day review, but, Senator, let me be very up front with you. After a decade of Bjork-Shiley heart valves, and breast implants, and devices that have severely injured patients, we are ratcheting up the science.

To be honest with you, I cannot do a safety review, and read an application, and do the kind of science that the American people expect, as far as protection, in 90 days. It creeps up to about 130 or 140 days. We are trying our best.

I understand your concerns, the concerns you have articulated on the part of the company. But you have to understand that there is also the other side. If you want me to do my job, and you want me to assure that the product is safe, you have to give us some room.

If any device goes wrong tonight out there in this country I am going to be sitting here thinking it is our fault. Anytime I try to assure the safety and efficacy, I am holding up progress.

So what we need to do is achieve a balance. There is no way that I could ensure the safety and efficacy of all medical devices within 90 days. It is just impossible.

#### 510(K) APPROVALS

Senator BOND. In this particular instance, the device does not even come into physical contact with the patient. It has been under review for 450 days, without any decision. It has been 230 days since its status report has been given to the applicant. They are in the process of laying off people. There is a problem. To me, that seems a bit longer than the standard——

Dr. KESSLER. There is no question, and the new leadership in the Center for Devices is very committed to addressing the kinds of issues you raise.

Yes; I want to get the timeframes down. Yes; I want to make sure of the integrity of the scientific decisions, and I have to do both. It is one of the reasons why I am sitting before you.

The President has requested an additional \$20 million specifically to go toward the workload of the Center for Medical Devices. That \$20 million will allow us to hire additional people to do reviews without the quality of review suffering.

In a time when we have to feel confident in our choices before coming to you with any additional resource requests, this is one area, as well as vaccines, that I am bringing before you today. Those are the two requests that are in the President's budget. And it is to address exactly the types of problems that you are addressing.

We want to get the timeframes down, and we are working with the industry to do so. There is no quick fix, but there must be balance. That is what we need to accomplish.

Senator BOND. Well, I would urge you to reduce those backlogs. We will do what we can to provide the resources, but, again, I would also suggest that in your directive to your personnel, you make it clear that in terms of extensive delays, that there not be retaliation for those questioning your actions.

Dr. KESSLER. Absolutely.

Senator, I am a pediatrician. I use these devices. If there is a device that is going to help somebody, we want to get it out.

Let me clarify the record. The 1976 Medical Device Statute allowed 510(k) devices to be marketed after 90 days unless FDA issued a specific denial. Under the Safe Medical Devices Act of 1990, a 510(k) device cannot be marketed without specific approval even if that takes longer than the 90-day timeframe established by the act.

Senator BOND. Mr. Chairman, I thank you for the time. I particularly appreciate the courtesy of the ranking member.

Senator BUMPERS. Thank you, Senator Bond. Senator Cochran.

## DRUG PRICING

Senator COCHRAN. Mr. Chairman, I appreciate your recognizing me. Let me ask just one question, and then I will yield so the Senator from Wisconsin can ask questions if he would choose to.

There is a big hue and cry about drug pricing right now. The administration in looking at health reform proposals, I believe, has publicly suggested that voluntary price controls from drug companies will be encouraged. There is even a suggestion by some that there be a commission established to impose price controls on the drug industry.

I am curious as to what you think about that, and whether you have been brought into the discussions to determine what ways are available to try to hold down the prices of drugs to consumers.

Dr. KESSLER. Senator, what we are good at, or what our expertise is in, is assessing the safety and efficacy of pharmaceuticals. We are not good at cost-effectiveness. We do not have that kind of expertise.

For example, the chairman referred to Streptokinase and NTPA. If I am a hospital, or a physician, I need data to help me decide which drug to use.

If one costs \$7,000 and the other \$1,000, efficacy data is still needed for a decision. In the end, there is a scarcity of the kind of data needed to make the best decisions.

We are going to be seeing more and more of the pharmaceutical industry doing the head-to-head kind of comparison, we saw on Streptokinase and NTPA, and I welcome that.

But the comparisons need to be rigorously done, and on reviewing those head-to-head comparisons with regard to efficacy, I think the agency does have expertise that could be called upon.

But on cost-effectiveness, that is not something that has traditionally been part of the agency. Again, we are a scientific regulatory agency, so I think we should stick with the data with regard to safety and efficacy.

Senator COCHRAN. It seems to me that competition in the American marketplace has done a great deal to provide American consumers with an abundance of products at reasonable prices. And I wonder, to what extent do you think we need to modify existing legislation or laws here to help ensure that in the drug industry that is true as well?

Dr. KESSLER. Senator, let me just speak personally as a pediatrician. There is some concern on my part. I mean we are sitting here day and night trying to accelerate the drug approval process.

We are trying to get drug approval in a matter of months; AIDS drugs in 4, 5, or 6 months of review time. That is what we have been doing, and that is what we are shooting for on all breakthrough drugs.

If we push these drugs through to provide access, in the end, someone is going to have to be able to afford it. What good is it if I speed up the approval process, if people on the other end cannot afford it?

It is not only in this country. I have grave concerns that no one on the continent of Africa can afford some of the antiviral com-



pounds that we have approved for AIDS. They are just too expensive.

So I think access to medicine is a very important issue that really does need to be dealt with, and I know that the President and the First Lady are dealing with that issue.

#### MEDICAL DEVICE APPROVAL

Senator COCHRAN. The issue of medical device approvals was raised by Senator Bond. I had in my notes here a copy of an article which appeared in *Forbes* magazine back in January that has a subheading, "The U.S. Food and Drug Administration has all but stopped approving new medical devices, much to the benefit, for now, of foreigners." I am going to put a copy of the article in the transcript of the hearing.

[The information follows:]

[From *Forbes* Magazine, Jan. 18, 1993]

#### BLOCK THAT INNOVATION

THE U.S. FOOD & DRUG ADMINISTRATION HAS ALL BUT STOPPED APPROVING NEW MEDICAL DEVICES—MUCH TO THE BENEFIT, FOR NOW, OF FOREIGNERS

(By Laura Jereski)

In over two decades as a successful builder of innovative medical-device-making companies, Manuel Villafana has overcome many a scientific and financial hurdle. But nothing prepared him to deal with the faceless government bureaucracy that is the U.S. Food & Drug Administration.

Villafana, now 52, helped launch Cardiac Pacemakers, now a subsidiary of Eli Lilly. Later he cofounded St. Jude Medical, a maker of high-tech valves used in open-heart surgery. Since 1990 Villafana has run ATS Medical, a Minneapolis-based startup that has developed a heart valve Villafana hopes will one day supplant St. Jude Medical's valve, now the industry standard.

But that day may be a long time coming. Embarrassed by much-publicized problems with silicon gel breast implants and heart valves, the FDA has almost stopped approving new medical devices. The FDA's approvals of new devices have sunk from 47 two years ago to 12 in the fiscal year that ended last September. Officially the FDA attempts to complete reviews of new medical devices and give a thumbs up or down within 180 days, but in some cases the review process has stretched to two years or more. Contrast this slowdown to the growth of the FDA's total staff—up from 7,600 in 1990 to 8,700 now—and to its budget, up from \$598 million to \$760 million.

How do startups like ATS survive if the bureaucrats keep their products off the market? The better-capitalized ones do so in part by looking overseas. ATS' new heart valve is almost completely assembled in Minneapolis and then shipped to Scotland where the last piece, a sewing cuff around the valve, is attached. From Scotland it is sold into France, Switzerland, Germany and five other foreign countries. Foreign sales brought in \$225,000 through the first three quarters of last year, not much but enough to help the company raise some \$27 million in a private placement to fund extended clinical trials in the U.S. Even so, says Villafana, ATS' valve probably won't be available to American patients until 1997.

Or consider Waltham, Mass.-based Summit Technology. In 1988 Summit developed a laser technique for the removal of corneal scars; the laser procedure could substitute for risky corneal transplant surgery for as many as 20,000 U.S. patients annually. Summit has been trying for a year to win FDA approval for its procedure. But the FDA's ophthalmology panel, which usually meets at least four times a year, met only once last year, and so didn't even consider Summit's clinical results supporting its request for approval.

Fortunately, Summit's laser device is used in 35 countries for refractive surgery to improve vision by changing the shape of the cornea. That foreign business accounted for virtually all of Summit's \$30 million in sales last year. "We are lucky," says Summit President David Muller. "If it weren't for the refractive surgery overseas, we'd be out of business."



Says Daniel Lemaitre, a medical devices company analyst at Cowen & Co.: "There isn't a company that isn't thinking of moving its research and development, and its manufacturing, overseas."

The FDA's approvals slowdown—in concert, probably, with uncertainty as to what future U.S. health insurance policies will cover—has begun to drain venture capital away from medical device companies. Walter Channing of CW Group, one of the largest investors in medical innovations, says that ten years ago 40 percent of his capital would have been invested in medical device companies. Today only 20 percent of his funds are so invested.

Warns Robert Daly of Boston's TA Associates, a big venture firm: "The new regulations and delays mean adding \$10 million to \$20 million to a company's budget, and several years until the device gets to market. At that rate, most [venture] deals don't make sense." And when medical innovation deals suffer, everyone does.

#### DELAYS IN MEDICAL DEVICE APPROVALS

Senator COCHRAN. But my question to you is, based on this and other suggestions that approvals of various new medical devices have dropped from 47, 2 years ago to 12 in fiscal year 1992, whether or not we are getting to the point where we are driving our businesses overseas, or causing unnecessary delays and expense, and draining venture capital from medical device companies. Is there an explanation for all of this?

Dr. KESSLER. Senator, I think you are entitled to the entire picture. The numbers you referred to were the premarket approvals [PMA's] that are submitted for a number of devices. There are also about 5,000 devices approved each year under the 510(k) process which Senator Bond was talking about.

Manufacturers would much rather go under the 510(k) process, because we try to do those in the 90 days, or the 130 days, under the PMA process. But to say that the device approval has come to a halt is not accurate. I do not think the record reflects that when you see that 5,000 devices are approved.

The important point is we have  $x$  resources within the agency, and we have to make the best use of those resources. The issue is, 23 additional legislative statutes have been added to the agency as a whole in the last decade, with insufficient new resources. The Device Center alone has had the Safe Medical Devices Act, Clinical Laboratory Improvement Act [CLIA], and the Mammography Quality Standards Act [MQSA], added just in the last couple years.

We are assessing, and we are going to have to make some hard decisions about which devices we want to give priority. I will leave that to Dr. Burlington, as he gets his feet on the ground, and has some time to assess the question.

I think the American public has a right to expect that those devices that are going to impact on their health, and that have the potential to help them, get priority. I think that is the kind of system which we are going to need to start thinking about. But it is not fair to say that device approvals have stopped. In fact, there are thousands being approved.

Let me not mislead you. We are all ratcheting up the science, and I am taking the heat for that. That is why you have companies that are not happy and why Senator Bond raised those questions. We are becoming more rigorous. We are becoming more thorough, and are not hesitant to ask questions. The public deserves that.

On the other hand, everybody wants the device approved tomorrow. So it is a balance, but we are ratcheting up the science.

The \$20 million the President has requested will enable us to ratchet up the science, and attain the quality that the chairman mentioned with regard to drugs. It will allow us to have the kind of personnel to make sure that things can be done in a timely fashion.

Senator COCHRAN. In the budget request, you are pointing out that you need an additional \$20 million to carry out the requirements of the Safe Medical Devices Act of 1990. How many full-time equivalent positions will be added, if any, with that \$20 million?

Dr. KESSLER. About 200, Senator.

Senator COCHRAN. OK.

Dr. KESSLER. In addition to that, the President is requesting \$10 million for the Center for Devices; actually, \$13 million, because there is \$3 million in the supplemental request for 1993 for mammography. So the Center for Devices would be receiving in 1994 an additional \$30 million. The mammography statute is a very important statute and we have begun implementing that even though funds have not yet been appropriated. The requests for mammography, as well as for the Safe Medical Devices Act, are critical to being able to have a thriving device industry.

Senator BUMPERS. Senator Kohl.

#### BOVINE GROWTH HORMONE [BGH]

Senator KOHL. Thank you very much, Mr. Chairman. Dr. Kessler, I know you are well aware of the fact that BGH has many ramifications beyond the safety ramifications such as economic impacts and effects on farmers and our whole economy. But I just want to talk to you for a moment about BGH, and your role in the whole BGH affair. And that is a question of timing.

I do not expect that you are prepared today to say exactly when you are going to reach your conclusion with respect to authorizing or not authorizing the use of BGH, but can you give us some indication? Are we talking about days, weeks, months, years?

Dr. KESSLER. Senator, there were two major questions. I asked both those questions, the mastitis question and the issue of labeling. It will be publicly aired and publicly debated in front of advisory committees.

Normally, after the major issues go to an advisory committee, we are talking somewhere between 30, 60, or 90 days, historically. I cannot tell you positively. I do not know, because there are still questions that are being asked by senior agency managers.

Senator KOHL. So you are saying, historically, we are talking in the range of 30 to 90 days.

Dr. KESSLER. Yes, sir; after an advisory committee has dealt with the final issues in—

Senator KOHL. I have another question about that. As I said, there are economic impacts, in addition to—

Dr. KESSLER. Senator, I just do not want to be held to that on this—

Senator KOHL. No; I understand.

Dr. KESSLER. Thank you.

Senator KOHL. You used the historical precedent of 30 to 90 days, and it may or may not apply in this case, is what I hear you are saying.

Dr. KESSLER. Thank you.

Senator KOHL. How will the different agencies coordinate, in the event that you authorize use of BGH? Then there are a whole range of economic impacts that need to be considered. There is no avenue to coordinate these kinds of considerations.

Do you have any thoughts on how your agency and any other agency that may be involved can effectively operate in a cooperative way so as to be most effective in the marketplace with respect to farmers? How is this going to work? Do you have any idea how it may work?

Dr. KESSLER. Senator, it is a very important issue, because there are consequences to our actions. While we cannot take certain things into account, we can and should make sure that the data is available to other appropriate entities of the Government where they do have consequences.

We are all one Government, and we have worked hard to coordinate with our colleagues. There are issues with regard to USDA and the various support programs, again, that we cannot take into account, but we have made sure that they have been kept abreast of our review, and have information.

There are trade issues. There are international issues. We have made sure that the U.S. Trade Representative's office has been kept abreast, that the State Department has been kept abreast, and that the senior levels of Government that coordinate all agencies are kept abreast.

So we are working very hard to make sure that everyone is kept abreast. That way our actions can be done on the basis of the factors that are set out by you in our statute, and other agencies are not left in the dark.

Senator KOHL. Will these other agencies have any advance notice on the direction in which you are going with respect to BGH, so they may think about what impacts it has on them?

Dr. KESSLER. I have already strongly urged them to do so. We have shared data, and we have invited them to be at the advisory committee meetings. I have strongly urged them to begin that thinking, and I know that they have.

Senator KOHL. Will they have some indication with respect to the direction in which your decision is going before it is, in fact, announced—

Dr. KESSLER. Again—

Senator KOHL. So that they can figure out what its impact may be on them?

Dr. KESSLER. Again, I have certainly asked them to begin that process now, based on the contingency that we approve—I have given them the same answer with regard to the time lines that I just gave you, Senator.

Senator KOHL. Based on the contingency that you might—

Dr. KESSLER. Yes; I advised them that they needed to be thinking of contingencies based on approval.

#### BOTTLED WATER

Senator KOHL. All right. Dr. Kessler, in March of this year the city of Milwaukee experienced problems with its drinking water, which resulted in thousands of Milwaukee residents, in fact, people



speculated hundreds of thousands of Milwaukee residents being exposed to crypto sporidium, a parasite that causes residents to experience stomach flu-like symptoms. Many people went to the hospital, and were very, very sick. There is some speculation as to whether or not one or two deaths were caused by the crypto sporidium. Residents were advised to boil their tap water before drinking or cooking.

The next month, in Sheboygan, WI, just 40 miles or so down the road, issued advisories for citizens to boil their own tap water in Sheboygan, after the drinking water drawn from Lake Michigan became unexpectedly cloudy, and fears were raised in Sheboygan about possible parasite presence there.

In response to the uncertainty about the safety of the water supplying Sheboygan and neighboring communities, many residents opted to buy bottled water at their local supermarkets. Residents were shocked to learn in Sheboygan that bottled water standards are actually less well enforced than the standards on the tap water that they were trying to avoid.

One bottled water company, for example, recalled its products, which had been drawn from the municipal tap water system. While most bottled water companies go far beyond these standards, some bottled water is little more than bottled municipal tap water, and, therefore, subject to the same inadequacies of those systems.

So I am concerned, as I am sure you are, about the misconception in the United States with respect to bottled water, and what it is, and what standards that it is held to. I understand that the FDA has proposed rules that would establish specific standards of identity for bottled water, and require labels to identify the source of the water. Can you tell us when you expect these rules to be published?

Dr. KESSLER. We are just finishing the comment period, and as soon as we have had a chance to review those comments, we will go to the final rulemaking stage. So we are not far away, Senator.

Senator KOHL. Do you expect that bottled water will be held to a different and higher standard than municipal tap water?

Dr. KESSLER. Senator, we are concerned about making sure that consumers know what they are buying, and that it is accurately labeled. I think that it is very important to point out that even under the proposed regs, there are instances, as far as safety is concerned, where the municipal water is as safe, if not safer.

Again, we will be very specific, so that all the products will be labeled. We had jurisdiction, not on the water in Milwaukee, obviously, we leave that to the local officials, and with our colleagues at EPA, on food that was prepared with that water. We had jurisdiction on food that was shipped into other States. So we did have our inspectors onsite.

But our goal still is to make sure that people do not have to go buy bottled water. I mean that is still the goal of our Government.

The municipal water system certainly is among the safest in the world. So bottled water, even though there is that perception, is not necessarily any safer.

Senator KOHL. There is a perception out there, I mean in that real world that we live—

Dr. KESSLER. If you want to buy bottled water.



Senator KOHL. There is that misperception.

Dr. KESSLER. Again, let me leave aside those areas of the country, and I leave it to my colleagues at EPA, to talk about—in certain areas, there may be a need, or there may be a value. But in the vast majority of this country, municipal water is as safe, if not even safer, than bottled water. It is a matter of taste. That is what it comes down to in most areas of this country.

Senator KOHL. So you would say to the people of Milwaukee, now that the water has been cleared for drinking, it is as safe to drink this water, or safer, than it is to drink bottled water, is that correct?

Dr. KESSLER. That is correct. Again, I'd certainly leave it to the State.

Senator KOHL. And that is almost a categorical statement.

Dr. KESSLER. Right. But I think that it is probably best, for me to leave it to the State health officials to make that categorical statement. They insist on the best data available.

Senator KOHL. Thank you very much, Dr. Kessler, and thank you, Mr. Chairman.

RU486

Senator BUMPERS. Dr. Kessler, we may have a separate hearing here in the immediate future, just dealing with irradiation, let the environmentalists come on and give us their viewpoint, and also on bottled water, which is creating something of a firestorm in the country.

I have a passing interest in it, because Mountain Valley Water in my home State is probably the oldest bottled water company in the United States, and also the very best water in the United States. [Laughter.]

I am getting a lot of correspondence from them.

Let me ask you one question that I neglected a moment ago. If you will, tell us what kind of tests are you conducting on the French abortion drug, RU486? How long do you expect it to take? What are you going to require before you allow that drug to be licensed in this country?

Dr. KESSLER. Mr. Chairman, the basic fact is that the FDA does not test drugs. We do not market them. We do not develop them. We respond to applications.

Now, we do play a role to make sure of several factors, one, that there is a complete medical armamentarium available in this country, and, two, we reach out to make sure that armamentariums exist. So I actually go to drug companies, and have done it a number of times and have said, you need to apply.

Senator BUMPERS. Somebody wants to produce that drug in this country, so they are applying to you for permission, and that is when you start your tests, is that correct?

Dr. KESSLER. Again, we do not test. I mean they apply to us for a license to allow them to conduct the tests. So we give them what is called an IND, Investigational New Drug Application. Essentially, that allows them, once that IND goes into effect, to test, but we do not test.

Senator BUMPERS. How long a period is this going to take?

Dr. KESSLER. There already is, in the published medical literature, a lot of data that could go toward the safety and efficacy of RU486. That is the data we have seen.

The company has recently made available to us data on the chemistry and toxicology. There is some question that both the United Kingdom and the French system, for which that data was developed, have a different setting in which the drug is administered.

So I think there are questions about what is the appropriate setting. They are giving it only in clinic settings, under direct supervision by physicians. We do not have quite that system in this country. But there already exists a lot of data in the published literature that we are familiar with and have reviewed.

Senator BUMPERS. Well, do you not have to analyze all the results of their tests, and have the final licensing say over who is going—

Dr. KESSLER. That is correct, Mr. Chairman.

Senator BUMPERS [continuing]. To be licensed in this country?

Dr. KESSLER. That is correct.

Senator BUMPERS. Now, my next question is: How much longer do you think this is going to take?

Dr. KESSLER. Once we have an application in hand for the NDA, and we do not have that application in hand, and no one has submitted us that application, we are talking about a matter of months to do that review.

#### APPLICATIONS FOR RU486

Senator BUMPERS. You do not have an application from any company in this country to produce that drug in this country?

Dr. KESSLER. There are two types of applications. There is the IND, which is to allow an investigation to take place, and then there is the application to market the drug, called a new drug application [NDA].

There have been several IND's that have not been publicly acknowledged, because I am not allowed to talk about the IND's in any public setting, unless they have been publicly acknowledged by the holder. There are several IND's that do allow for testing.

There is no application that has been submitted to the agency, there is no NDA request for marketing.

We have asked, because we believe—

Senator BUMPERS. What will you do when you get that application?

Dr. KESSLER. I am sorry?

Senator BUMPERS. What will you do, assuming you will, and I am quite sure you will, get that application, the latter one that you mentioned, that was—

Dr. KESSLER. The NDA. We will do for that application what we would do for any application, and that is, review that data for the safety and efficacy of the drug.

Senator BUMPERS. And you can either license it, based on the information you have, or request additional information, and so on, correct?

Dr. KESSLER. That is correct, Mr. Chairman.

Senator BUMPERS. You do not have any idea as to when you might receive such an application, do you?

Dr. KESSLER. Well, we have urged, as we have in a number of other settings, we have urged the company to submit an application to us. They have agreed to license, again, in their term, commercially license the drug to the Population Council. The Population Council would then end up submitting an application to us.

Now, in order for the Population Council to do that, they would need to have a manufacturer, someone who could go manufacture the drug. That is not on our clock. We do not undertake that kind of manufacture.

To find a manufacturer, and gear up to be able to produce and do the organic chemistry, that could take several years, just the manufacturing process of any new drug.

They need to be able to show us that they have the capability to manufacture the drug in a reliable and safe fashion. So that is really where the holdup will be before an application can be submitted.

Senator BUMPERS. The holdup will not be with FDA, then.

Dr. KESSLER. That is correct.

Senator BUMPERS. Senator Gorton.

#### IRRADIATION

Senator GORTON. Thank you, Mr. Chairman. Part of the subject that I wanted to ask questions about you have already asked about, so your answers are completely on record, and you can shorten me on that. But Senator Bumpers did talk to you about food irradiation in general terms, and some of the environmental objections to it.

I want to focus a little bit more precisely on its use with respect to meat, because it was the State of Washington in which the E. coli epidemic started in, and because there is a tremendous amount of interest there, and because apparently food irradiation would take care of the cause of E. coli.

I would like to know what the progress is of licensing food irradiation for meat, what your attitudes are at the present time, and perhaps some comments, not so much on how we deal with environmental objections, but with consumer apprehensions with respect to that subject.

Dr. KESSLER. Senator, as I have told the chairman, we have approved food irradiation in a number of products, including pork.

It is my understanding that there has not been an application from anyone with regard to beef.

I certainly agree with Secretary Espsee that irradiation is an important tool, but I certainly do not believe that it should be the substitute for any other steps along the way as far as assuring safety.

I think this applies at every step; the processing plant has responsibilities, the warehouse has responsibilities, the retail server has responsibilities. Yes; irradiation may be an important tool along that way, when and if we get data on that, we are willing to look hard and expeditiously at it.

No one should think for a moment that you can have sloppy practices in a processing plant, or you can undercook a hamburger,



and everything is going to be solved by irradiation. Yes; it is an important tool.

I applaud Secretary Espree's efforts, and we are working together. But we have to make sure that we have a comprehensive system from farm or fishery to the table, and irradiation may be an important point.

Senator GORTON. Respond to my question about consumer concerns.

Dr. KESSLER. The consumer concerns—when I was in the Bronx running a hospital, we had an MRI we were installing. At first, we were calling it an NMR, a nuclear magnetic resonance imager.

The outbursts were incredible from the community. What are you putting here? It is an NMR. Are you building a nuclear power-plant?

The name changed to an MRI, magnetic resonance imager, and people said, "Well, all right. Well, that is fine." The product did not change, but people's perception changed. People still have a sense that if you irradiate a strawberry, that strawberry is radioactive. That is not the case.

Yes; at the source, and for the person who is irradiating it, there must be certain precautions. OSHA has those standards in place to make sure that the food workers are adequately protected, but the strawberry is perfectly safe. We have looked at it. We would not have approved it if we thought there were any concerns.

But any time you use the word "radiation," or "nuclear," you set off certain bells, and we need to deal with that. We need not to make light of it.

#### DEVICE APPROVAL

Senator GORTON. Maybe we ought to take a leaf out of your book and change the name. OK. Thank you. The second question or series of questions I would like to ask you relate to a subject on which we have already had a conversation. That is the manufacture of heart defibrillators by Fissio Control, a corporation in my State.

As you know, Congressman Swift and I have communicated its concerns to the Food and Drug Administration on several occasions. We still do not have a final answer in this connection.

I do understand, from many of my conversations with you and with other members of your staff, that some of the problems were caused by Fissio Control itself, and yet, we do have a manufacturer of a product which is of significant value to many people. We have almost 1,000 very highly skilled employees. We have a company which has been out of the manufacturing business for more than a year.

So can you speak both specifically, and perhaps in more general terms, as to whether or not there is any better way for the FDA to review matters, and prove in a timely fashion, with the end result that we both have a safe product and reasonable job certainty than seems to have happened in this case?

Dr. KESSLER. Senator, as you know, I like to stay out of talking publicly about specific applications that are pending. Suffice it to say that, as you just said, these are not simply technical issues,



they are vitally important issues to the people who would be receiving the device.

I think I can say that we are on the verge of settling all the issues to assure that the American people are adequately protected.

Senator GORTON. That is a wonderful answer. But now let us go away from Fissio Control, and deal generally with that process. Has either this particular case or any others you have dealt with and talked to shown that there may be better and more expeditious ways than which to deal both with the public safety and with the necessity of some device, or process, which you, yourself, believe to be important to the healthy American people, and get the job done more quickly?

Dr. KESSLER. I am seeing from our inspection rates, we are in a very critical stage of device regulation. When you think about it, the Device Act is only really in its second decade. With the drugs that we have been talking about we have a lot more experience. We are dealing with a much more sophisticated industry.

Part of my job, and some of the heat that comes with it, is that what we are trying to do is to create incentives, and make sure that manufacturers produce even safer products.

In our inspections, we are finding a high degree of violations of basic good manufacturing practices [GMP's]. The violations that we are seeing are very significant. It is not just here or there.

In part, that results from the fact that the industry's sophistication in dealing with GMP's is emerging. I am taking heat, because I am sort of trying to pull them up so that we do not have problems.

These are critically important devices. These are devices that are going to get implanted. We have just had too many devices that have failed, or have not been up to the kind of quality that we really have a responsibility to ensure.

So we are trying to increase the levels of GMP's to make sure that products are produced in a way that assures their safety; that the products work; and that they are not going to be problems down the road.

It is not easy. We are not getting there overnight. It is something that we are going to be engaged in, I think, for the next decade.

This is a vibrant industry. There is a creative genius to this industry. But I would not be doing my job if I just said, "OK. Just go manufacture any way you want to." So we are trying to achieve a balance. We are trying to make sure that the incentives are there for manufacturers to produce the safest kind of products.

Some companies are unfortunately coming along with a little kicking and screaming, but we will all get there. Everybody understands the importance. Our goals are the same.

Senator GORTON. Thank you, Dr. Kessler. It is a good answer. Thank you, Mr. Chairman.

Senator BUMPERS. Thank you. Senator Cochran, do you have anything?

#### USER FEES—DRUG APPROVAL

Senator COCHRAN. Let me just ask a followup question on this drug approval business. In terms of the new drug applications and

the ANDA's, the abbreviated new drug applications, there are complaints about delays.

I wonder whether or not the supplemental and the additional funds that are being requested in this budget are going to go to hiring people to help expedite the processes, and if so, how many new people do you contemplate hiring with the supplemental funds?

Dr. KESSLER. Senator, last year I met, as part of the user fee discussions, with the Congress and with the industry, and I sat down with the generic drug industry.

I said, OK, we are willing, just as we were willing in the prescription drug area, to expedite our review process for a relatively modest fee, not anywhere near the fees for the prescription drug industry.

We would expedite. We could use those fees, and apply those fees to the generic drug industry, the ANDA's to which you referred.

The generic drug industry said FDA is doing such a good job, there is no reason to speed up approval any more. Senator, I have to tell you, I was taken a little aback.

They said that because—and I would like to acknowledge this, since he is announcing his retirement today—Dr. Carl Peck, with his team, has single-handedly turned around that whole generic drug situation to where the drug industry says it is not worth it to pay an extra \$10,000 to cut the review time significantly, because you guys are doing such a good job.

I never thought I would hear that, but it is because of the hard work that Dr. Peck and his team have brought to that process.

Generics are very important. If you look at the backlog, you can see it rising as the result of the generic drug crisis.

That backlog is back down. It is because of Dr. Peck, Dr. Williams, and a very dedicated staff. I think that the American people, especially the elderly who are on fixed incomes and need generics, have benefited from their efforts. It goes back to the chairman's question on drug pricing. In the generic drug program, Dr. Peck and his team have turned around that situation.

Senator COCHRAN. One of the proposals that I understand was discussed was the external review by independent contractors of some of these applications. Is that something that is still being considered?

Dr. KESSLER. The user fee statute prohibits contracting out, certainly on the prescription drugs. No; this was not done by contracting out. This was done by FDA staff working day and night on the problem.

#### USER FEE FTE

Senator COCHRAN. OK. We talked about the full-time equivalent positions that would be assumed in this budget. We notice that there are no full-time equivalent positions being assumed in either fiscal year 1993 or fiscal year 1994 from the user fee collections proposed.

Under the law, it was our understanding that these user fee collections would be dedicated to enhancing the process for review of human drug and biologic applications. How would you reduce the review time without funding additional personnel from the user fees?

Dr. KESSLER. Senator Cochran, obviously that is a critical issue. We could not. There is no way, without FTE's, that we could reduce the review time. It is an issue that is being discussed at OMB.

It is a very critical issue. The whole user fee act depends on the issue of being able to hire people if you so appropriate that money.

Senator BUMPERS. Senator Cochran, if you would yield. Dr. Kessler, I understood you in an earlier question I asked you that OMB was on board on all these new employees. I thought you just said that that was under discussion.

Dr. KESSLER. OMB is on board with requesting—if I misspoke, I apologize, Mr. Chairman. OMB is on board with regard to asking for the supplemental dollars. On the issue of FTE's, I will let Dennis Williams talk about the discussions that OMB and the Department are having on the FTE count.

Mr. WILLIAMS. The numbers in the budget reflected decisionmaking at the time. You know that President Clinton, under his Executive order, has set as a goal some personnel reductions in the Federal Government. We are participating in that.

But that Executive order also lays out waiver authority for the Director of OMB, and we intend to send a request to OMB under that waiver authority, seeking the authority to hire for this purpose and some other purposes.

Senator BUMPERS. But now we are going to have a supplemental coming through here momentarily, probably before you get an answer from OMB, will we not?

Mr. WILLIAMS. We expect to get an answer fairly quickly. We have not actually formally sent the request. There are discussions with the Secretary now. We would expect to send the request very quickly, and we would expect to get an answer pretty quickly.

RU486

Senator BUMPERS. Dr. Kessler, I have just two or three quick questions before we terminate your part of this hearing. Let's go back to this abortion drug, the French abortion drug, RU486.

Did I understand you to say that the delay is likely to be in the manufacturing process or the building of a manufacturing facility and the process?

Dr. KESSLER. Yes, Mr. Chairman, you did.

Senator BUMPERS. Why would that be? If the French already know how to produce this, it looks to me like it would be of no benefit for somebody in this country to produce that drug.

Dr. KESSLER. Unfortunately, that is not the case. I do not know if you ever took organic chemistry. Just because I tell you how to make something, to be able to produce a drug so that every single tablet is identical to every other tablet, and make sure that it contains only the ingredients you want, is a very complicated kind of synthesis. We are dealing with steroid biochemistry.

The kind of molecules which make up RU486, involve a very complicated synthesis. The German parent company of the French company Roussel Uclaf, is not willing to allow Roussel Uclaf to manufacture the drug for the American people.

The only way to shortcut the manufacturing time would be for the French to do the manufacturing. They have good plants. They know how to produce good quality drugs.



If you want to shortcut the lead-time to manufacturing, then the answer is to allow the French to do it. However, given the constraints on Roussel Uclaf, you have to find another company to do it. Even with all the resources and all the know-how, and even if Roussel Uclaf says, "we will teach you how to do it," or "we will provide that kind of technical assistance," developing the capability to perform that kind of synthesis from scratch, can take up to 2 years.

Senator BUMPERS. Is it NBD, is that it?

Dr. KESSLER. The NDA.

Senator BUMPERS. If you get an NDA, and you sign off on that, is there any prohibition against the company you grant that to, from importing the French drug?

Dr. KESSLER. In the NDA, we have a requirement that you have to tell us how the drug is going to be manufactured.

Senator BUMPERS. Let us assume they say we are not going to manufacture it, we are just going to import it.

Dr. KESSLER. Then you have to allow us to go and inspect that manufacturing plant. If, for example, the French Roussel Uclaf would license the drug to the Population Council, and also produce it, and say, "we will manufacture it," and the Population Council would submit an application that says here is the data, and it will be manufactured by Roussel Uclaf, then we could review it under those terms.

There would be no problems under that scenario. My guess is that would save time, because we do have a company that already has the experience on the manufacturing end.

#### VACCINE-DPT

Senator BUMPERS. Let me turn to the vaccine that Leatherly has been licensed by the Japanese to use in this country, the diphtheria, tetanus, and whooping cough vaccine.

Now, we know, to set the stage for the question, that about 1 out of 300,000 kids who get a DTP shot have a profound reaction. This shot is given at 2, 4, 6, and 18 months, and at school, five shots. Normally, the reaction, if there is going to be one, would be in the first shot, but there are some reactions, I understand, maybe in the second shot.

Now, Leatherly, of course, they are going to charge a lot more money for the Japanese vaccine, when they sell it, than they charge for the vaccine we have been using all these years.

I am not asking you to get involved in the cross-fight, but there is a thing that is very strange to me, and that is, FDA has approved this license. It is an acellular vaccine.

And Leatherly, last year, when I asked them, why would you charge so much more for the vaccine, when the only time you are going to give it is on the fourth shot, at 18 months, after the child already has had his first three shots with the American made vaccine, the only time you are going to give this shot is the fourth and fifth shots, when the danger of a reaction is normally over? And you are going to charge us twice as much for it.

His answer was: FDA will not let us give it until the fourth shot.



Dr. KESSLER. Mr. Chairman, I administer these vaccines to kids. I would like nothing better than an even safer DPT at 2, 4, and 6 months.

Senator BUMPERS. Dr. Kessler, let me ask one little thing.

Dr. KESSLER. Sure.

Senator BUMPERS. They said at the time that you were conducting clinical trials, and until those trials were complete, and you were satisfied, you would not allow them to give a shot to a child before the fourth shot at 18 months. Go ahead.

Dr. KESSLER. It is incorrect that we are conducting the trials. Leatherly is conducting the trials. The burden is on Leatherly. They are conducting trials in Germany.

We have to make sure we know that the vaccine is effective, as far as building up an immunity, on the fourth and fifth booster dose. We do not have that data on 2, 4, and 6 months.

Infants are very different than toddlers I mean as far as their immunity—

Senator BUMPERS. Where did you get the data on the 18 months and 6 years old?

Dr. KESSLER. Those were submitted by the company. The fact that we are holding them up is just not true.

Senator BUMPERS. No; I mean where did they conduct the clinical trials that they gave you the information on?

Dr. KESSLER. Let me ask Dr. Hardegree. On the two other boosters, I know the German trials—

Senator BUMPERS. You say they are conducting trials now in Germany.

Dr. KESSLER. They are conducting trials in Germany on the efficacy, whether the vaccine is immunogenic at 2, 4, and 6 months. That trial is not complete. That data is not there.

Senator BUMPERS. If I were them, I would never complete it. They have a bird nest on the ground now. They are charging twice as much.

Dr. KESSLER. On another issue on which you and I have talked a little, is that those kinds of incidents occur more often on the first and second shots. When you really look at the data overall, I think we need to do a little more homework on the first three doses. But the fact is that the burden is on the company to show that it is effective at 2, 4, and 6 months.

#### CONTACT LENS RECLASSIFICATION

Senator BUMPERS. We are having a hearing, the HHS Subcommittee on Appropriations, Thursday on this, and we will pursue it, I guess, a little bit further at that time. However, that is not the purpose of that hearing. The purpose is how are we going to get these kids vaccinated.

I have three or four questions I will ask in writing, Dr. Kessler. I have worked a long time on the so-called Safe Medical Devices Act of 1990.

One of the provisions of that act gave the FDA the authority to reclassify daily-wear contact lenses. And the time for making that decision was in November.

Of course, the purpose of this whole act was to relieve FDA of an awful lot of undue and unnecessary paperwork. What is the sta-

tus of that reclassification? Is that going to be done on time, by November?

Dr. KESSLER. Yes; my understanding is that happens automatically this fall.

#### SUBMITTED QUESTIONS

Senator BUMPERS. Fine. Dr. Kessler, this will conclude your part of the morning hearing. We thank you very much. We will submit a few questions to you in writing, and hope you will respond as quickly as possible.

Dr. KESSLER. Thank you, Mr. Chairman.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR BUMPERS

Orphan Products

Question. There is considerable interest in your orphan products and grants program. What is the current funding level for 1993 and what is proposed for 1994?

Answer. The funding for FY 1993 as well as the proposed level for FY 1994 is \$9,145,000.

Question. Please provide a summary of the number of grants, in what amounts, and for what purposes, provided in 1992, 1993 and proposed for 1994?

Answer. In FY 1992, 15 new grants were awarded for \$2,140,000 and 54 continuation grants were awarded for \$7,005,000. In FY 1993, 18 new grant awards are projected for approximately \$2,661,000 and 45 continuation grants for approximately \$6,484,000. In FY 1994, 34 new grant awards are projected for approximately \$5,059,000 and 28 continuation grants for approximately \$4,086,000.

Product Approvals

Question. In recent years, one of the complaints about FDA is the time it takes to get a product approved. In many cases, statutory time limits are not met. How long does it currently take for approval of NDAs and ANDAs in the various areas?

Answer. In fiscal year 1992, the median approval time from time of receipt to time of approval for NDAs was 24.2 months. In fiscal year 1992, the median approval time, from receipt of the complete ANDA to approval, was 34.5 months. This includes time that the application was with the applicant to address deficiencies noted by our reviewers. Many of the applications approved in fiscal year 1992 were submitted to FDA in 1989 - 1991. This was a period in which the Agency was dealing with a major crisis in the generic drug program and industry. It resulted in a very large backlog of applications and exceedingly long review times which are reflected in the 34.5 month approval time estimate. We expect the average approval time to improve in the future now that backlogs have been substantially reduced.

Question. How do these compare with statutory limits?

Answer. The 180 day statutory time limit for review of an application refers to the time from receipt of the ANDA until its review is completed and an action letter, either approval or not approvable, is issued. We report this time as median review time. Approval time is a function of review time, number of review cycles and the time the application is with the applicant/sponsor. The median review time for ANDAs in 1992 was under five months, which is below the 180 day limit.

Question. Are you making progress on improving this record?

Answer. We have taken a number of steps to improve the review times of both NDAs and ANDAs. Since December of 1991, the Agency has implemented several changes that have helped to decrease the amount of time needed to complete a drug review, to increase the number of reviews completed, and to decrease the backlog. These changes have enabled reviewers to approve products more quickly without compromising the quality of the review or patient safety. Among these initiatives are:

#### ANDA Improvements

- A large recruiting and training effort was undertaken during 1991 and completed in 1992 to fill the Office of Generic Drugs' chemistry review branches.
- The ANDA review process has been improved by giving minor amendments for applications near approval highest review priority. Every effort is made to issue an action letter within 60 days of the date the minor amendment to the unapproved ANDA is received, subject to outstanding Agency consults or field clearance.
- The Office of Generic Drugs has established an Approvals Tracking Committee that meets twice each month to review the status of applications near approval. These applications are carefully monitored to facilitate final administrative reviews and signatures. Since implementation of the committee, final reviews and sign-offs routinely occur in less than one month.
- The staff of the Office of Generic Drugs meet with the staff of the Office of Compliance on a weekly basis to review the status of pending inspection requests and to prioritize the applications needing pre-approval inspections. This helps assure that pre-approval inspections do not hold up approval of applications which are otherwise ready for approval.

#### NDA Improvements

- Accelerated approval is now considered for certain new drug products used to diagnose or treat serious or life-threatening illnesses when they provide meaningful, therapeutic benefits compared to existing treatment.
- The Agency announced a final policy to establish the parallel track which expands the availability of promising investigational agents and makes them more widely available to people with AIDS and other HIV-related diseases who have no therapeutic alternatives and cannot participate in controlled clinical trials.
- FDA provides concurrent reviews to assure the identification of critical issues studies, significant studies and important details.



- Forty-five day meetings are conducted to encourage early interaction between all reviewers, including upper level reviewers, and to develop a framework and process for the managed review of an NDA.

As a result of these and other improvements, FDA approved 86 NDAs during FY 1992--an increase of almost 37 percent over FY 1991. In addition, the Agency decreased the backlog of NDAs by almost 47 percent between FY 1991 and FY 1992.

### Buildings and Facilities

Question. For fiscal year 1992, Congress appropriated \$200 million for FDA's facilities consolidation proposal. What is the status of that proposal, the time frame for implementing it, the projected cost, and activities in 1993 and 1994?

Answer. The Department and GSA are looking into the most appropriate means to consolidate FDA facilities.

Question. I note that the new research laboratory that will work on AIDS and biotechnology is currently under construction. What is the current estimated cost and when do you expect construction to be completed?

Answer. The estimated cost for construction of the building is \$28,000,000, and it is scheduled to be completed by June 1, 1994.

Question. What are some of the activities planned for the facility?

Answer. Building 29B was developed to house scientific reviewers for the Center for Biologics Evaluation and Research that were hired to address the increasing number of complex scientific issues and numbers of regulatory submissions in the areas of AIDS and biotechnology. Building 29B will house the immediate office of the Center Director, the Office of Vaccine Research and Review, two divisional offices, offices for scientific reviewers, and supporting animal facilities. These scientists participate in programs directed toward the evaluation and review of new biotechnology therapies that impact on AIDS, vaccine development, and gene therapy. These activities will support the evaluation of new biotechnology products for cancer treatment and diagnosis through the use of monoclonal antibodies and recombinant cytokine products. These products and therapies and their complexity are dramatically increasing as a result of new developments in biotechnology.

AIDS-related research in Building 29B will address issues related to endpoints for efficacy of therapeutic vaccines for AIDS, mechanisms of infection by the AIDS virus, detection of different isolates of AIDS in the blood supply, and evaluation of new AIDS vaccines.

Programs carried out in Building 29B also will address issues related to the safety of gene therapy vectors which are used to deliver the intended gene product. These programs include studying the safety of gene therapy vectors in non-

human primates and the potential for other viruses to produce cancer.

### User Fees

Question. You have submitted a budget with a proposal to collect \$200 million in user fees in addition to the \$54 million you intend to collect under the Prescription Drug User Fee Act of 1992. I understand these new user fees will be derived from FDA regulated entities other than those involved in biologics and human drugs. Could you please provide more details on this new user fee proposal?

Answer. The Administration, as part of a larger strategy for dealing with deficit reduction, is proposing additional user fees of \$200 million in 1994. These fees would replace base costs for FDA in 1994. The President's "Vision for America" includes \$200 million in budget authority and \$167 million in outlays from new user fees. The details of these additional user fees are still under development.

Question. What FDA regulated entities will be involved and what amount do you expect to raise from each?

Answer. The details of these user fees are still under development.

Question. What would the financial impact be on small operations, in particular, device manufacturers?

Answer. The issue of user fees for the medical device industry presents a number of challenges. Unlike the drug industry which is very concentrated, the device industry consists of a large number of relatively small firms. Of the over 20,000 firms that make up this industry, over 75 percent of them have fewer than 20 employees. Application of user fees to this industry will necessitate special care to be sure that there is as little market disruption as possible, and that fees are levied as equitably as possible.

Question. Are you consulting with industry on this proposal? If not, do you believe the industry would be interested in it?

Answer. We continue to have informal discussions with each of the industries involved--the pharmaceutical industry, the medical device industry, and the animal drug industry. All of the various segments of these industries are different, and each speaks with a separate voice.

Question. If your proposal includes animal drugs, doesn't the law require you to do a feasibility study prior to assessing user fees?

Answer. The Center for Veterinary Medicine was mandated to conduct a feasibility study on the issue of user fees for animal drug applications, with a completion date scheduled for early calendar year 1994.

Question. Will you be submitting to the appropriate authorizing committees a proposal in legislative form? If

not, under what authority do you believe FDA could collect these fees?

Answer. At this time, I am not certain whether FDA will be submitting legislation for additional user fees before the conclusion of the feasibility study.

Question. How realistic is it to believe FDA could implement and collect an additional \$200 million in user fees for fiscal year 1994?

Answer. We believe we can implement and collect \$200 million in user fees in FY 1994. The Prescription Drug User Fee Act is only a beginning; the general user fee proposal is another step in the right direction.

Question. Could you maintain services with a reduced federal appropriation while implementing a user fee collection system?

Answer. It would be possible for FDA to maintain services with a reduced Federal appropriation while implementing a user fee collection system provided that collection system does not prove to be overly complicated to implement. From our experiences with the Prescription Drug User Fee Act, which is considered largely self-executing with fee rates and structure, we encountered numerous problems and concerns that had to be resolved. We found the Act to be vastly more complicated to implement than we had originally anticipated. However, we will apply the lessons learned from this experience in structuring other user fee proposals.

#### "Smart Drugs"

Question. Dr. Kessler, over the past few years we have heard reports that a growing number of Americans, young and old, have taken to chemicals as a way to enhance their IQ, reverse the aging process, or even cure Alzheimer's disease. I have also seen reports of so-called "smart bars" opening on the West Coast. Has the FDA determined the extent to which chemicals are being marketed as cognition enhancers, or "smart drugs"?

Answer. "Smart drugs" is a street name given to a variety of products that claim to enhance memory or boost intelligence; it is not a defined category of drugs. FDA does not approve products considered to be "smart drugs". Many of the products that are called "smart drugs" are actually nutrients--amino acids, vitamins, or other food substances such as choline, which is derived from lecithin. Others are herbs, as well as certain unapproved drugs and prescription drugs.

Proponents of "smart drugs" claim that the products stimulate mental function, improve performance, attention and concentration, and increase cognition and intelligence. Smart drugs are often purchased through off-shore or overseas pharmacies, foreign mail-order firms and health food outlets in the United States. Books available in bookstores, provides information on ways to obtain these drugs domestically. "Smart drugs" are also promoted in newsletters that list the

names and addresses of suppliers and furnish mail order forms for ordering these products. We also understand that buyers' clubs are promoting smart drugs in their publications. Occasionally "smart drugs" are obtained fraudulently through physicians' prescriptions or imported for personal use.

Question. Have any clinical studies been conducted to support or refute claims that these chemicals are safe and effective?

Answer. None of the claims for smart drugs has been subjected to testing in controlled clinical trials -- the standard regularly accepted by health officials and researchers. Testimonials have never been regarded by responsible scientists as reliable evidence of a product's safety or effectiveness.

Most marketers and promoters of smart drugs avoid putting their claims directly on the products' labels. Instead, they depend on persuasive ads and sales pitches made by word of mouth through sales "reps" and organizations. As is the case with amino acids that are also sold for other purposes, such as "steroid enhancement," many products are simply identified by their chemical name and composition or by unusual names like "Wow or "Blast."

Question. Has the agency received any reports of serious adverse reactions resulting from the use, or misuse, of these compounds?

Answer. FDA has not received any reports of injuries from these drugs. However, it is possible that adverse events may go unreported since "smart drugs" are not identified as drugs, and there are no formal reporting requirements or mechanisms that govern these "smart drugs". Nonetheless, despite the absence of information, there is concern about these kinds of products because of the possibility that they could interact with medications that people are taking and because of the uncertainties associated with their actual identity, content, and suggested dosage levels.

Question. What, if any, options does FDA have for restricting the sale and use on nonprescription compounds, and under what circumstances would FDA impose restrictions?

Answer. Any product that is clearly associated with smart drug claims, regardless of its composition, -- including nutrients and approved or unapproved prescription drugs -- is illegal and subject to seizure or other actions by the Agency to protect the public health. Legitimate drugs that affect mental conditions and functions, including those related to aging and memory, must be approved by FDA before they can be marketed. At this time, no drugs or other products have been approved by FDA to improve memory or intelligence. Although there are approved products for treating a number of behavioral signs and symptoms seen in emotionally and physically impaired persons over 60, such as ergoloid mesylates, a substance also promoted as a smart drug, these products have never been shown effective for nor are they approved for any uses in normal healthy persons.



FDA announced an import alert on January 30, 1992, directed at unapproved mail-order drugs sold by off-shore companies. Included were some drugs promoted as smart drugs. FDA is also working closely with state attorney generals and other state authorities to prevent illegal sales and distribution of smart drugs.

#### AIDS

Question. Your budget proposes level funding of \$72.4 million for AIDS-related activity and 11 fewer FTE's in 1994. This is the first time no increase is requested in recent years for this activity. What progress have we made in this battle, and what do you see in the not too distant future in terms of dealing with this disease?

Answer. A great deal of activity is underway in developing drugs and vaccines for AIDS and AIDS-related conditions. FDA now has received over 650 investigational new drug applications for HIV/AIDS and HIV/AIDS-related products. These applications include: therapeutic agents being used as immunomodulators, antivirals or antineoplastics; agents to treat opportunistic infections; diagnostic test kits for the detection of HIV; and others. More than 450 of these applications continue to be active. Many trials being carried out under these applications are investigating the use of two or more agents in combination.

Of great importance in enhancing the effectiveness of FDA's role in facilitating vaccine development is the expansion of the already functioning partnership between the regulatory scientists/reviewers in FDA and their counterparts in other Federal agencies and outside organizations involved in vaccine development. Most recently, FDA participated in the NIH panel of experts to assist in providing advice and recommendations concerning the proposed efficacy trial for the GP-140 vaccine.

The Agency is continuing its efforts to expedite the development and testing of vaccines for the prevention and treatment of HIV infection. While there is currently no effective vaccine to prevent or treat HIV infection, FDA has received 28 investigational new drug applications to test 13 different vaccines.

Question. Noting that you have a large number of investigational new drug applications for AIDS drugs and therapies, will level funding and a reduction of 11 FTE's be sufficient to keep up with the demand and improve upon the approval process?

Answer. As in other Agency programs dealing with product review, our ability to keep up with the demand and improve upon the approval process depends on the receipt of resources from user fees as authorized by the Prescription Drug User Fee Act of 1992.

## QUESTIONS SUBMITTED BY SENATOR KERREY

### FDA Approval Process

Question. The FDA product approval process is a critical link in the development of new medical technology. The well-being of patients and the international competitiveness of American medical inventors and entrepreneurs are also affected by this process. How can we be assured that FDA panels meet on a timely basis? I understand that the Ophthalmology Panel, for example, has met only once since the first quarter of 1992, resulting in a backlog of premarket approval applications.

Answer. Regarding your concern about the scheduling of advisory panel meetings, it is Agency policy to establish pre-set meeting dates for all advisory panels. The Ophthalmic Devices Panel met on February 26 and May 20 of this year. Another meeting of this panel is scheduled for the end of October. It is important to note that the pre-set meeting dates are tentative ones and can be canceled depending on whether FDA has matters to bring to the panel. Further, we have the flexibility to schedule a panel meeting at any time, i.e., if a PMA is ready for review by a panel, a meeting will be scheduled as soon as feasible.

Question. Additionally, how can the approval process be streamlined? Unnecessary delays in product clearances -- or disapprovals, if warranted -- do not benefit either the public or the medical community.

Answer. There are several Management Action Plan initiatives being developed to streamline the approval process. Some of the initiatives that are close to completion are proposals on: "Triage", the sorting of submissions into a 3 tiered structure to assure the proper resources are committed to the review; "Refuse to File", establishing a quality threshold for all submissions and a means to reject grossly inadequate or incomplete applications; "Closure", ensuring the recommendations of the advisory panels are considered and an agency decision is rendered in a timely manner; and "Expedited Review", allowing submissions deemed to meet the criteria for expedited review to be put in the front of the review queue.

There are many other Management Action Plan initiatives in development that are designed to improve the review process.

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## QUESTIONS SUBMITTED BY SENATOR COCHRAN

### Prescription Drug Act User Fees

Question. What level of full-time equivalent positions are needed to carry out the requirements of the Prescription Drug User Fee Act of 1992 given the fee collections assumed in the budget in each of fiscal years 1993 and 1994?

Answer. The goals of the Prescription Drug User Fee Act, to substantially reduce the review time at FDA for drug applications, requires substantial additional reviewers at FDA. This was understood when the Act was drafted, and was the basis for starting the total fee revenue at \$36 million in 1993, and increasing the amount to \$84 million in 1997. It was envisioned by the drafters that FDA could begin in 1993 by hiring about 200 additional review and Center support staff. I believe that this level of additional reviewers and support staff is essential to begin to achieve the goals of this Act.

Question. When will you be able to start collecting the fees authorized by the Prescription Drug User Fee Act?

Answer. Fees can be collected following enactment of an appropriation providing the level of fees allowed, as required by the statute. A supplemental appropriation for 1993 in the amount of \$36 million was requested by the President for these user fees.

Question. Is it reasonable to assume that the \$36 million contained in the supplemental request will be collected and available in fiscal year 1993?

Answer. The \$36 million for 1993 was the estimated revenue to be collected based on the fees established in the statute. Roughly, that assumed that \$12 million would come from application fees, \$12 million from establishment fees, and \$12 million from product fees. Of the product fees, not all \$12 million will be collected in 1993 because of the mechanics of the new law -- only half of the money can be collected when the application is submitted. The other half is to be collected when FDA takes action on the application. In some cases that will be in 1993, and in other cases in 1994. But it is important for the full \$36 million to be appropriated in 1993, to allow us to collect the balance of the fee when we issue our first action letter in response to the application.

#### New User Fees

Question. The fiscal year 1994 funding request for the FDA relies on \$200 million in collections from new user fees to be derived from FDA regulated activities. In arriving at this estimated level of collections to be available to FDA, what fees are assumed and which industries regulated by the FDA will pay these fees?

Answer. The Administration, as part of a larger strategy for deficit reduction, is proposing additional user fees of \$200 million in 1994. These fees would replace base costs for FDA in 1994. The President's "Vision for America" includes \$200 million in budget authority and \$167 million in outlays from new user fees. The details of these additional user fees are still under development.

Question. The prescription drug user fees authorized by law last year are to be used to provide an enhanced level of service. The budget indicates that the new user fees proposed on FDA regulated activities will offset base costs of FDA's ongoing operations. Why are you proposing to use these fees to offset base costs rather than enhancing services?

Answer. It is the other user fees discussed above, for deficit reduction, which are proposed to offset FDA's base costs once they are collected.

As provided for in the Act, the fees collected pursuant to the Prescription Drug User Fee Act will only be used to support increases in new human drug and biologics review activities, or for new workload necessary to carry out this Act.

Question. What are these base costs?

Answer. As I mentioned earlier, the specific details of the \$200 million user fee proposal are currently under development.

Question. Do you believe that the FDA can institute these fees without legislative authority? If not, when will the Administration's legislative proposal be submitted to the Congress? If yes, what authority does the FDA have to institute these fees?

Answer. No decisions have yet been made as to the exact components of the deficit reduction user fees under consideration, or whether they will require legislative action.

Question. Last year, the Congress was told that it would take 18 to 24 months to develop any new user fee program and to begin collecting the fees. Has this timetable changed? If not, on what basis does the fiscal year 1994 budget assume that \$200 million will be available in collections from these proposed new fees for fiscal year 1994?

Answer. When our previous testimony indicated that it would take 18 to 24 months to implement new user fees, the assumption made in the question was that we would use the user fee authority in Title 31, and would have to implement the fees by regulation, through notice and comment rule making. As I mentioned earlier, we are now looking specifically at the savings proposal and have not definitely determined the appropriate method for obtaining the funds. We could, for example, use the Prescription Drug User Fee Act of 1992 as a model. That Act is a self-executing statute that does not require rule making. There are ways to implement user fees without the time consuming process of notice and comment rule making.

Question. If the additional income from new user fees is not generated as assumed, how will the FDA be able to carry out its responsibilities and meet its increased workload with appropriated funds requested for fiscal year 1994?

Answer. FDA is a payroll intensive agency -- over 60 percent of our Salary and Expense Appropriation goes to cover the cost of salaries and benefits for our 9,000 employees. Most of the rest of the appropriation is required for the direct support of those employees -- paying for supplies, equipment, travel expenses, utilities, etc., to allow them to operate.



If FDA's spending authority were \$200 million less than proposed in the President's budget, FDA would have to take unprecedented action at the beginning of the fiscal year. This could include action such as an immediate freeze of all hiring and elimination of all but product emergency overtime which would save about \$14 million. Almost all of the remaining \$186 million in savings would have to come from our largest expense category -- salaries and benefits. It is difficult to envision how this could be accomplished without taking some adverse personnel action.

#### Mammography Quality Standards

Question. Funding is being requested for the FDA to implement the new Mammography Quality Standards Act. Is the FDA prepared to move as expeditiously as possible to implement the appropriate standards and institute aggressive enforcement of this Act?

Answer. FDA has developed an implementation strategy that will allow rapid and effective implementation of the Mammography Quality Standards Act as soon as resources are made available. In developing this strategy, FDA has carefully thought through MQSA's requirements, Federal and private sector capabilities, and expected difficulties in achieving statutory requirements.

FDA is also preparing to undertake a variety of other preliminary steps to position the agency for rapid implementation of MQSA. These actions include -

- FDA is requesting delegation of authority for MQSA from DHHS to FDA, including specific authority relating to the MQSA advisory committee.
- FDA is moving to organize the advisory committee required under MQSA. This will include obtaining authorization to form the committee and recruitment of committee members.
- FDA is initiating necessary personnel actions. This effort includes the development of position descriptions for FDA personnel; establishing a term SES position to oversee FDA's MQSA program; and beginning recruitment. FDA will hold off actual hiring until concerns about FTE ceiling restrictions are resolved.
- FDA is initiating procurement actions that do not require prior policy decisions. For example, FDA is initiating the procurement of data processing equipment, calibration facility equipment, and some field testing equipment.
- PHS is exploring the possibility of short-term details of personnel from PHS agencies to FDA to assist with implementation of the MQSA program.

FDA believes that it will be extremely challenging to implement MQSA, some legislative changes may be required if the MQSA program is to achieve the objectives set by Congress. Within the Department we are discussing whether changes should be proposed.

Question. Supplemental funding of \$3 million, along with fiscal year 1994 funding of \$13 million, is requested to implement the Mammography Standards Act of 1992. What increase in full-time equivalent positions is needed in each of these years to carry out the requirements of the Act? Are these increases included in the President's fiscal year 1994 budget request?

Answer. FDA estimates 15 full-time equivalent positions (FTEs) are required for FY 93, and 50 FTEs each subsequent fiscal year. Funds for these positions are included in the President's FY 94 budget submission and the accompanying FY 93 supplemental request.

#### Proposed Investments

Question. Funding included in the investment program proposed in the President's fiscal year 1994 budget will require this Committee to find offsets within existing program resources if it is to comply with the statutory cap on total discretionary appropriations for fiscal year 1994. Investments totaling \$64.6 million are proposed for FDA, including \$34.6 million for vaccine safety, \$20 million to carry out the Safe Medical Devices Act of 1990, and \$10 million for implementation of the Mammography Quality Standards Act of 1992.

The additional investment funding proposed is essential to allow the FDA to meet its statutory responsibilities in each of these areas. How will FDA be able to fulfill these requirements if these investments must be funded through reductions in the resources requested for FDA's other programs and activities? Where would you suggest these offsetting reductions be taken if necessary?

Answer. Over the last decade, dozens of new laws have been enacted increasing FDA responsibilities, often without additional resources. Reallocation from other already stretched public health and safety programs--in some cases severely--is not feasible.

The full spending level requested in the Investment Package including that proposed to be financed by user fees, will be critical to the accomplishment of FDA's public health responsibilities in fiscal year 1994. Included in the Investment Package are resources for the Mammography Quality Standards Act of 1992 which is crucial to providing quality preventative health care for women and for the Safe Medical Devices Act of 1990 which significantly expands and strengthens FDA's medical device enforcement powers. FDA has received no funding for these programs. The Immunization Initiative is needed to administer FDA's vaccine programs, including those dealing with AIDS. The vaccine workload is expanding at an alarming rate, and the program will be more than doubled under the proposed Presidential Initiative.

It is true that FDA has a tough job, and has historically faced and met a great number of challenging events. However, while our tasks are challenging, the resources proposed in our budget will sustain the effectiveness of FDA's programs in carrying out the Agency's mandates.

Human Drugs

Question. The budget justification indicates that FDA expects an increase in funding for human drugs from the fiscal year 1993 appropriated level of \$205.5 million to \$233.4 million in fiscal year 1994. This increase of \$27.9 million (about 14 percent) is accompanied by a reduction of 57 full-time equivalent positions.

Can you tell the Committee why staff is planned to be cut in the face of a large budget increase and how these additional funds are to be utilized if not on staff-year positions?

Answer: In 1994, FDA will contribute to the President's initiative to reduce Federal employment by reducing FDA's employment by 339 FTEs. This reduction will be spread across all programs in the Agency including human drugs. However, the Executive Order on Federal personnel reductions does include waiver authority, and we are seeking a waiver for authority to hire the additional staff needed for the human drugs program and for other purposes.

Question. FDA plans to augment human drug funding with user fees collected under the authority of the Prescription Drug User Fee Act of 1992. Specifically, fee collections would provide \$19 million in fiscal year 1993 and \$28 million in fiscal year 1994 for human drug activities. The Prescription Drug User Fee Act provides that fees "shall only be collected and available to defray increases in the costs of the resources allocated for the process for the review of human drug applications (including increases in such costs for an additional number of full-time equivalent positions...)". No increase is shown in the budget justification in the number of new drug evaluation staff between fiscal years 1993 and 1994.

How can these fees be legally collected and used if they are not being used to increase staff?

Answer. Fees collected under the Prescription Drug User Fee Act must be used to support increases in human drug approval activities and for administration of the Act.

Question. Last year, FDA was moving forward on a proposed pilot program for external reviews. This proposal would have allowed external contractors to review New Drug Applications in order to speed up the process, with FDA maintaining full control over those reviews. Do you still believe such a program is feasible and worth considering?

Answer. FDA did move forward with the pilot program and awarded a contract to one company which has completed reviews of two Efficacy Supplements and has started a third Efficacy Supplement. We have evaluated one of the completed reviews and are satisfied with the work. We plan to maintain this capability to address periods of exceptional workload to be able to further assess the potential of this program and its impact on the review process.

Medical Device Approvals

Question. What is the current backlog of pending medical device applications? How long is the average review time now taking beyond the statutory review times?

Answer. As of April 30, 1993, a total of 1,414 premarket notification (510(k)) submissions were pending in FDA more than 90 days. For those 510(k) submissions logged out during April 1993, the average number of review days was 211, which is 121 more days above the historical 90-day time period for reviewing premarket notification applications. With the passage of the Safe Medical Devices Act of 1990, FDA does not have a statutory timeframe for issuing decisions on 510(k) submissions. However, FDA is taking measures to streamline the review process to ensure that all types of product applications are reviewed as quickly as possible.

FDA had a total of 148 original premarket approval applications (PMAs) under review as of April 30, 1993. Of these, a total of 57 PMAs were on hold with the manufacturer pending additional information. Of the remaining 91 applications under active review within FDA, 43 submissions exceeded the 180-day statutory timeframe. For all the PMAs pending at the end of April 1993 (including those pending less than 180 days), the average time in the review process since filing was 392 days. If hold time with the manufacturer is excluded, the official review time is reduced to 216 days, which is 36 days over the 180-day statutory timeframe. For PMA supplements, a total of 504 applications were pending as of April 30, 1993. Of these, 161 applications were on hold with the manufacturer. A total of 343 PMA supplements were under active FDA review at the end of April 1993, with 145 of these pending more than 180 days. The average number of days in the review cycle since filing for all PMA supplements was 239 days, or 186 days if hold time by the manufacturer is excluded. The FDA time exceeded the statutory timeframe by 6 days.

As of April 30, 1993, FDA had no Investigational Device Exemption (IDE) applications under review past the 30-day statutory timeframe. For the IDEs with decisions during April 1993, the average review time was 24 days.

Question. Will this review time improve if the additional \$20 million requested to carry out the Safe Medical Devices Act of 1990 is provided?

Answer. FDA is requesting an additional \$20 million in funding in FY 1994 to carry out SMDA responsibilities and to increase the level of support for the product review process. FDA intends to use the additional funding to implement all the remaining provisions of SMDA and to increase the level of activity for the provisions already in effect. FDA also will increase the amount of resources available for the product review process. The additional staff along with new management initiatives will help reduce the amount of time required for the premarket review of IDE, PMA, and 510(k) applications.



Question. The FDA has taken steps to accelerate approval for drugs to treat serious and life-threatening illness. Is similar action being considered to expedite the approval of critical life-saving devices?

Answer. There has been a Blue Book policy memo on Expedited Review in effect since October 25, 1989. It is presently being revised to clarify the definition and expand the use of the policy. Some of the newly proposed criteria necessary to qualify for an expedited review include:

Serious or life-threatening conditions with no alternative modalities.

Serious, life-threatening or otherwise debilitating conditions with existent approved alternatives, where the new device provides for earlier diagnosis or significant advances in safety and/or effectiveness over existing alternatives.

A revolutionary device which represents clear clinically meaningful advantages over existing technology.

A device with specific public health benefit.

Question. What is FDA doing to improve its communication with industry on the status of applications and to reduce unnecessary and costly burdens on industry in the review process?

Answer. Improving communication with industry is a top priority management issue. The Office of Device Evaluation review staff have been advised to be responsive to manufacturers' status requests. When a document is overdue, reviewers are to provide enough information to give the caller a sense of where in the process the application is. Although a long range plan for providing status information using an automated system is in development now, an Office of Device Evaluation (ODE) management task force has been formed to provide a temporary means to handle these calls. Blue Book Policy Memo #193-1, issued January 29, 1993, details how reviewers are to handle telephone calls from industry representatives.

Question. The budget requests \$20 million in fiscal year 1994 to carry out the Safe Medical Devices Act of 1990. Dr. Kessler, you indicated at the hearing that an additional 200 full-time equivalent positions are associated with this proposed funding increase. Where, specifically, are these FTE positioned increases reflected in the table on pages 34-35 of the FDA budget justification?

Answer. Additional FTEs to implement the Safe Medical Devices Act of 1990 were not included in our Justification estimates which reflect decision-making at the time the document was prepared. We are currently seeking a waiver to the President's Executive Order on reductions in the Federal workforce from OMB in order to hire the FTEs necessary to implement the Safe Medical Devices Act.

## QUESTION SUBMITTED BY SENATOR BOND

Birth Defects

Question. There is a substantial and growing body of evidence that points to the utility of folic acid supplements in the prevention of spina bifida and other neural tube defects. Birth defects are the leading cause of infant mortality in this country and I have been working to increase our efforts for birth defect surveillance and prevention efforts. The fact that folic acid can prevent something as tragic as spina bifida is very encouraging.

The FDA has been slow, despite the overwhelming evidence, to approve the use of folic acid to prevent spina bifida and neural tube defects. This is very troubling.

We talk a great deal about the importance of preventive medicine in this country, particularly as we debate health care reform. Yet, when it comes down to the individual steps to prevent birth defects, we seem to be falling short.

What is the status of FDA's review and what is delaying FDA action?

Answer. The Public Health Service recently recommended that all women capable of becoming pregnant consume 0.4 milligrams of folic acid daily to reduce their risk of having a child affected with a neural tube birth defect. About 2,500 infants are born each year in the United States with these defects. The Public Health Service statement, which has as its target population about 70 million women of child-bearing age, noted that there were significant issues persisting about the appropriate level of folic acid in food and safety concerns regarding increased intakes of folic acid. Folic acid currently is approved for addition to food for its vitamin properties.

FDA is moving expeditiously to resolve issues that remain outstanding specifically with respect to folic acid and neural tube defects. A Folic Acid Subcommittee of the Food Advisory Committee has held two open meetings to discuss and make recommendations regarding food fortification, safety issues, needs for monitoring and surveillance, appropriate labeling of foods, and the need for educational activities directed at health care providers and women of childbearing age.

The Agency is now in the process of summarizing the discussion and preparing specific questions on these issues that will be submitted to the experts who participated in open meeting. Their responses will be forwarded to the Folic Acid Subcommittee for use in developing final recommendations which will be forwarded to FDA's Food Advisory Committee.

FDA staff are currently contributing to efforts by the Health Resources and Services Administration to develop educational materials directed at health care providers. There are a variety of ways that women of childbearing age can obtain the recommended level of 0.4 mg of folic acid per day. The majority of breakfast cereals are fortified with at least 0.1 mg of folic acid per serving; a limited number of cereals

provide 0.4 mg per serving. Dietary patterns such as those recommended in the Department of Agriculture's Food Guide Pyramid and the National Cancer Institute's "Five-A-Day" program emphasize increased consumption of fresh fruits and juices, whole grain products, and fresh vegetables. Using these guidelines will result in consumption of generous amounts of folic acid and other important nutrients. In addition, dietary supplements containing folic acid, such as multivitamins, are widely available for use at the discretion of the consumer. Based on recent studies, about 20 percent or more of women of childbearing age are currently taking such supplements.





## FARM CREDIT ADMINISTRATION

STATEMENT OF HAROLD B. STEELE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

ACCOMPANIED BY:

BILLY ROSS BROWN, BOARD MEMBER

GARY BYRNE, BOARD MEMBER

### INTRODUCTION OF WITNESSES

Senator BUMPERS. We will now hear from the Farm Credit Administration, Mr. Harold Steele, Chairman of the Board and Chief Executive Officer; Billy Ross Brown, board member, and Gary Byrne, board member. Welcome, gentlemen.

Mr. Steele, do you have any compatriots that you wish to sit at the table today?

Mr. STEELE. Yes; Mr. Brown and Mr. Byrne are coming.

Senator BUMPERS. Mr. Steele, the FCA requests a budget for 1994 of \$41,683,000. That is an increase of \$1,775,000. We have your statement, Mr. Steele, so if you could summarize it, that would be helpful to the committee. Please proceed.

Mr. STEELE. Mr. Chairman, I will be pleased to summarize the statement, and I also suggest that at the conclusion of the statement, Mr. Brown, Mr. Byrne, and I will be ready for your questions.

### CONDITION OF THE SYSTEM

Since 1989, many farm borrowers and lenders are generally in good financial condition. The agricultural sector's improved debt-to-asset ratio may suggest that some of the farmers can carry more debt.

But credit is not a substitute for income, and we know that not all farmers are in solid financial health. About one-half the Nation's farmers carry debt financing. For those operations with sales of over \$100,000 annually, over 80 percent carry debt.

A limited number of these have high enough debt-to-asset ratios to pose concerns if either expenses were to jump or receipts were to decline significantly. Current expectations are that cash receipts and net incomes of crop producers are likely to decline in 1993.

A positive factor in the overall farm economy has been lower interest rates. Helping to lower Farm Credit System borrower interest rates during the past 4 years have been lower spreads on System issues, which may be attributed to improved investor confidence and a general perception of stronger regulation of the System by the FCA.

From historically high spreads, exceeding 80 basis points over Treasuries in 1988, the System's average spread was only about 8 basis points over U.S. Treasury bills at the beginning of 1993. For

each basis point reduction in the spread, approximately \$5.5 million in interest expense is saved by the System and its farmer-borrowers.

I would ask you please to refer to the graph on page three of the testimony, which displays these reductions in the System's spreads during this 6-year period, to see the interest rate benefit that the farmer-borrowers now enjoy.

I would like to turn to the System's financial condition. The overall financial condition of the System continued to improve during 1992. Aggregate System net income during the year was \$986 million. That is a 21.6-percent increase over the same period in 1991.

A favorable interest rate environment allowed the System to increase profitability and capital, while still maintaining its competitive position in the agricultural lending sector.

To illustrate, net interest income increased 14.7 percent to \$1.79 billion, in 1992. In December 1992, no System institution's permanent capital was below the 7-percent regulatory minimum.

It is also noteworthy to point out that due to improved financial condition, two of the four banks that received direct assistance from the Farm Credit System Assistance Board have purchased zero-coupon bonds that upon maturity in 2003, will repay their respective direct assistance. This action is another significant step toward a reinvigorated Farm Credit System.

#### FARMER MAC

At yearend 1992, Farmer Mac had completed four transactions under the Farmer Mac I program. The outstanding volume of Farmer Mac I guaranteed securities was approximately \$544 million.

At yearend 1992, the outstanding volume of Farmer Mac II guaranteed securities was approximately \$30 million. To date, nine institutions have been certified as poolers. Most recently, the Columbia and the Western Farm Credit Banks, became certified poolers.

Farmer Mac's capital will continue to decline until it reaches a break-even point from its operations. However, at yearend 1992, the capital of Farmer Mac is nearly three times greater than the minimum capital level required by statute.

#### RECENT FCA ISSUES

I would like to comment on several issues that have been of interest to this subcommittee in the past.

One: The management study. As of October 1992, FCA completed a staff reduction in force and restructured its organization, eliminating a number of middle management and supervisory positions, as well as organization units that were no longer necessary.

As the result of these changes, FCA will achieve a net reduction of 40 positions in fiscal year 1993. We hired a chief operating officer this past November, and have undertaken a study of the agency's use of computer technology.

Two: The agency's computer capabilities and use. We hired an outside consultant, Ogden Government Services, through the General Services Administration, to study the effectiveness and capacity of the agency's data processing systems and computers.

The first stage of the plan, to provide an assessment of FCA's current information systems capability, utilization, and IRM planning process was completed this past March. It is being used as a basis for the second stage of the plan, which is to identify opportunities, to develop a recommended FCA 5-year IRM plan, and to develop procedures for updating the IRM plan annually.

Three: FCA received a formal letter of intent to merge the Federal Intermediate Credit Bank of Jackson and the Farm Credit Bank of Columbia this past February 3.

The banks requested that FCA grant a one-time extension of the negotiated merger completion date until October 31, 1993. A provision of the Farm Credit Banks and Association Safety and Soundness Act of 1992 allows for this one-time extension.

So on February 11, the FCA Board determined that the letter of intent executed by the boards of the FCIB of Jackson and the FCB of Columbia fulfilled the intent of the 1992 act, and approval for this one-time extension was granted.

Shortly after FCA's approval of the one-time extension, the banks submitted draft merger documents to the FCA staff for comment in advance of their formal request.

Then on April 19, the banks submitted their formal merger request. At this stage of FCA's review of the merger documents, we see no impediment for completion of the merger by the required date. As a matter of fact, the banks project a completion of the merger by October 1, 1993.

Four: Closing of receiverships. At the beginning of 1992, there were 12 Farm Credit System institutions in receivership. The FCA Board directed the final actions which led to the completion of eight association receiverships in the Spokane and Omaha Farm Credit districts, terminated the charters of those eight receiverships, and discharged the FCA-appointed receivers.

Five: FCA's financial management system. The FCA Board received the recommendations of the Office of Management and Budget task force and authorized the execution of a formal memorandum of understanding to upgrade the agency's financial management system with the Department of Treasury.

Once this system is operational, we will be able to produce performance-based income and expense statements. Then we will be able to track our expenses monthly, report on variances, and monitor our projected annual expenditures with much more accuracy and efficiency.

Thank you very much, Mr. Chairman, for offering us this change to highlight our statement. We stand ready for your questions.

#### PREPARED STATEMENT

Senator BUMPERS. Thank you very much, Mr. Chairman. We have your complete statement and it will be made part of the record.

[The statement follows:]



## STATEMENT OF HAROLD B. STEELE

Mr. Chairman and members of the subcommittee, I am Harold Steele, chairman and chief executive officer of the Farm Credit Administration (FCA). We appreciate the opportunity to testify. Accompanying me today are the two other FCA Board members, Billy Ross Brown and Gary Byrne. As you know, Mr. Byrne also serves as the chairman of the Farm Credit System Insurance Corporation. We are all available to answer questions at the end of my testimony.

Many farm borrowers and their lenders are generally in good financial condition. By 1989, the farm sector had largely recovered from the financial crisis it had endured during the early to mid-1980's. Between debt paydowns, writeoffs, and bankruptcies, the sector had shed nearly 30 percent (\$60 billion) of its debt, and had cut its yearly interest expense nearly one-third to under \$15 billion. Farm land values ended a 5-year slide in early 1988 when land values leveled out at an average of \$632 per acre. Land values have since been on a slow climb, reaching an average of \$685 per acre in early 1992. This compares with an average of \$823 per acre a decade earlier. The debt-to-asset ratio of the sector had deteriorated to 23.0 in 1985. By 1989, this important ratio had decreased to 16.5 and was estimated to be at that same level in 1992.

The agricultural sector's net cash income was approximately \$59 billion in 1992, and this is about 3.7 percent lower than the 1990 record high level of \$61.3 billion. Farmers have continued to make strides in holding down expenses. In fact, during the past 2 years, total farm production expenses declined 1 percent. Helping in this regard have been lower interest rates, particularly during the past 2 years, and the overall containment of general price inflation. Farmers' interest outlays in 1992, at \$13.5 billion, were 7 percent below those of 1990. However, in real terms, when measured against the inflation rate, there has been some erosion of both land values and net farm income the past few years.

The agricultural sector's improved debt-to-asset ratio may suggest to some that farmers can carry more debt. But credit is not a substitute for income, and we know that not all farmers are in solid financial health. About half the Nation's farmers carry debt financing; for those operations with sales of over \$100,000 annually, over 80 percent carry debt. A limited number of these have high enough debt-to-asset ratios to pose concerns if either expenses were to jump or receipts were to decline significantly. Current expectations are that cash receipts and net incomes of crop producers are likely to decline slightly in 1993. Prices of the major grains and soybeans are soft due to large crops last year. The situation in Eastern Europe and the former Soviet Union adds uncertainty to export prospects. Further, the possibility exists for reduced Federal outlays for farm commodity programs, crop insurance, and/or disaster payments. This will add another risk factor for the most vulnerable farmers and their lenders.

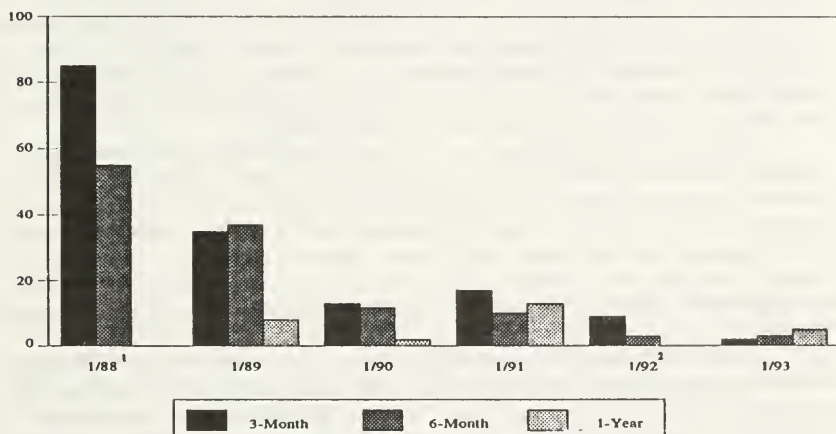
A positive factor in the overall farm economy has been lower interest rates. Helping to lower Farm Credit System (System) borrower interest rates during the past 4 years have been lower spreads on System issues, which may be attributed to improved investor confidence and a general perception of stronger regulation of the System by the FCA. From historically high spreads, exceeding 80 basis points over Treasuries in 1988, the System's average spread was only about 8 basis points over U.S. Treasury bills at the beginning of 1993. For each basis point reduction in the spread, approximately \$5.5 million in interest expense is saved by the System and its farmer-borrowers. Please refer to the graph, which displays these reductions in the System's spreads during this 6-year period to see the interest rate benefit the farmer-borrower now enjoys.

In October 1989, the General Accounting Office (GAO) studied Government-sponsored enterprises (GSEs). In its report, the GAO noted that Standard and Poor's rating of the Farm Credit System was influenced positively by the presence of an independent regulatory agency whose purpose was to ensure the safety and soundness of the System.



In its credit report on the System, Moody's, another rating agency, said, "The focus of the FCA is ensuring the safety and soundness of the Farm Credit System. In the past few years, the FCA has worked to expand and train its supervisory force and to improve its examination procedures. This strengthened supervision enhances debtholder protection."

### Spread of FCS Securities to Treasury (in basis points)

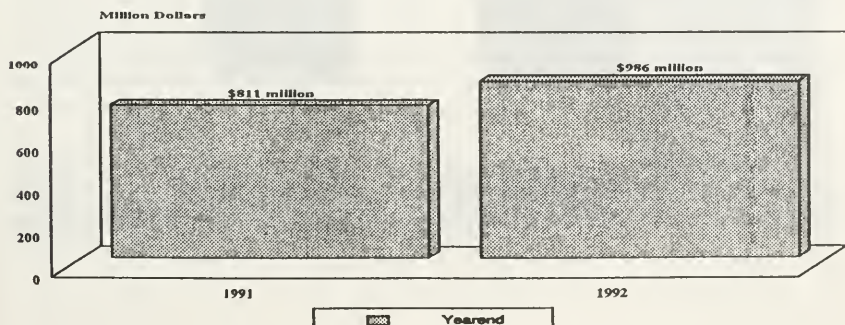


<sup>1</sup> In January 1988, there were no 1-year securities issued.

<sup>2</sup> In January 1992, the spread on 1-year securities was zero.

I'd like to turn to the System's financial condition. I am pleased to report that the overall financial condition of the System continued to improve during 1992. Aggregate System net income during the year was \$986 million, a 21.6-percent increase over the same period in 1991. A favorable interest rate environment allowed the System to increase profitability and capital while still maintaining its competitive position in the agricultural lending sector. To illustrate, net interest income increased 14.7 percent to \$1.79 billion for 1992, up from \$1.56 billion for 1991. While certain institutions of the System reduced operating expenses, aggregate operating expenses increased 2.9 percent. The System's overall net income was not adversely affected by this increase in operating expenses.

### Farm Credit System Exceeds Prior Year's Earnings



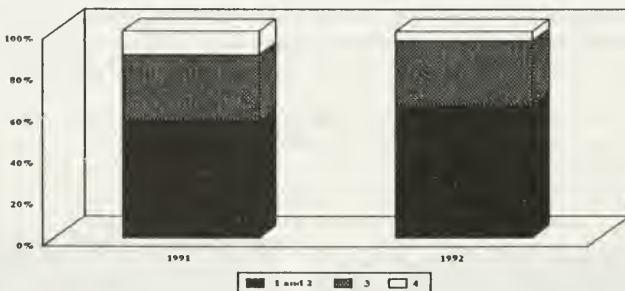
As you are aware, the System sells securities through the Federal Farm Credit Banks Funding Corporation to fund its loan portfolio. In general, many System bonds and all medium-term notes have maturities that are greater than 1 year. The System's discount notes generally mature within a 30- to 90-day period. The System's use of short-term funding was also a significant contributor to improved net interest income.

Discount notes typically carry a significantly lower interest cost than bonds and notes of longer maturity. The use of discount notes allows the System to more actively reduce its cost of debt and improve its net interest income. While this practice allows the System to be more responsive to decreasing interest rates, the agency has expressed concern that this short-term funding strategy could reduce the System's earnings should interest rates rise. Our examiners are focusing on this issue in examinations in order to expose any adverse effects on the financial condition of System institutions and direct those institutions with excessive exposure to promptly take corrective actions.

As a result of strong earnings, the 1992 capital position of all System institutions increased 18.9 percent to \$6.8 billion. At December 31, 1992, no System institution's permanent capital was below the 7-percent regulatory minimum. It is also noteworthy to point out that due to improved financial condition, two of the four banks that received direct assistance from the Farm Credit System Assistance Board have purchased zero-coupon bonds that, upon maturity in 2003, will repay their respective direct assistance, which is \$240.6 million. This action is another significant step toward a reinvigorated System.

In correlation with improved financial performance and credit quality, CAMEL ratings improved and the number of outstanding enforcement documents declined. During last year's hearings, we reported that there were no "5"-rated institutions and 29 institutions, or 12 percent, which were rated "4." As of yearend 1992, the improvement in ratings continued. The System continues to be free of "5"-rated institutions, institutions rated "4" declined to 5 percent (12 institutions), "3"-rated institutions slightly increased to 31 percent (78 institutions), and "1"- and "2"-rated institutions increased to 64 percent (163 institutions). Additionally, the number of enforcement documents (Cease and Desist Orders, Agreements, and Supervisory Letters) as of yearend 1992 declined to 65 and accounted for \$32.7 billion of System assets compared with 77 institutions and \$50.3 billion as of yearend 1991.

**CAMEL Ratings Improving**



Additionally, the quality of the System's loan portfolio continues to improve. Nonperforming assets as a percentage of total loans and other property owned declined from 12.72 percent at yearend 1991 to 10.80 percent at yearend 1992. The following chart shows, by category, an improving trend in the quality of the System's assets.

**Nonperforming Assets as a Percentage of Total Loans and  
Other Property Owned for the Farm Credit System  
(1991-1992)**

	1991	1992
Nonaccrual Loans	4.48	3.71
Restructured	2.57	1.60
Accruing > 90 Days Past Due*	.19	.12
Subtotal	7.24	5.43
Other High Risk Loans**	4.69	4.77
<b>Total Nonperforming Loans</b>	<b>11.93</b>	<b>10.20</b>
Other Property Owned	.79	.60
<b>Total Nonperforming Assets</b>	<b>12.72</b>	<b>10.80</b>

\* As defined by 12 CFR 621.2(a)(18)(i)

\*\* As defined by 12 CFR 621.2(a)(18)(ii)(iii) and (iv)

### Farmer Mac

The Federal Agricultural Mortgage Corporation (Farmer Mac) was created by the Agricultural Credit Act of 1987. Farmer Mac operates two programs under which it provides a guarantee of timely payment of principal and interest to security holders. Under Farmer Mac I, the guaranteed securities are pools of agricultural real estate loans or rural housing loans. Under this program, Farmer Mac may provide its guarantee when the security is protected by a reserve or a subordinated participation interest that absorbs at least 10 percent of the first losses from the pooled loans. At yearend 1992, Farmer Mac had completed four transactions under the Farmer Mac I program. The outstanding volume of Farmer Mac I-guaranteed securities was approximately \$544 million.

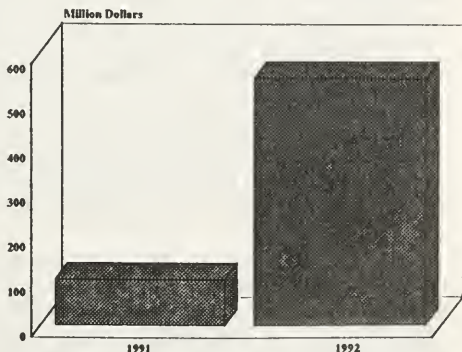
Under Farmer Mac II, securities backed by the guaranteed portions of Farmers Home Administration loans are issued with a Farmer Mac guarantee of timely payments of principal and interest. At yearend 1992, the outstanding volume of Farmer Mac II-guaranteed securities was approximately \$30 million (approximately three times the volume outstanding at the end of 1991).

Farmer Mac continues to report operating losses. The increased volume of business in both programs resulted in losses that were lower in 1992 than in 1991.

Specifically, Farmer Mac reported losses of \$1.3 million in 1992 compared with losses of \$2.7 million in 1991. To date, nine institutions have been certified as poolers. Most recently, the Western Farm Credit Bank of Sacramento, California, became the second System institution certified as a pooler.

Over the past few months, we have had several congressional inquiries about the decreasing capital level of Farmer Mac. While it is true that the capital level has decreased,

**500 Percent Increase in  
Farmer Mac I Volume**



the rate of decline has been slowing. Farmer Mac's capital will continue to decline until it reaches a break-even point from its operations. However, the yearend 1992 level of capital in Farmer Mac is nearly three times greater than the minimum capital level required by statute.

### Other Areas of Interest

I would like to comment on several issues that have been of interest to this subcommittee in the past.

### Management Study

To recap our recent history, language in both the Senate and the House of Representatives reports on the FY 1992 agricultural appropriations bills suggested that the FCA contract for an outside study of its management and operations. We followed that suggestion and the management consulting firm of Riso-Dempsey completed a study in March 1992. The major recommendations of the study were to consider appointing a chief operating officer (COO), to undertake a major study of the FCA's use of its computer technology, and to eliminate 25 positions by FY 1995. As of October 1992, FCA completed a staff reduction-in-force and restructured its organization, eliminating a number of middle management and supervisory positions, as well as organizational units that were no longer necessary. As a result of these changes, FCA will achieve a net reduction of 40 positions in FY 1993. We hired a COO last November and have undertaken a study of the agency's use of computer technology.

### Computer Technology Study

An issue of concern to this subcommittee has been the agency's computer capabilities and use. Following Riso-Dempsey's recommendation that FCA initiate a major study of the agency's application of computer technology, we hired an outside consultant [Ogden Government Services (OGDEN)], through the General Services Administration, to study the effectiveness and capacity of the agency's data processing systems and computers.

In addition, we limited data processing expenditures to those necessary to ensure we did not jeopardize current operations, imposed a hiring freeze on data processing personnel, and made changes in the management of our Information Resources Division.

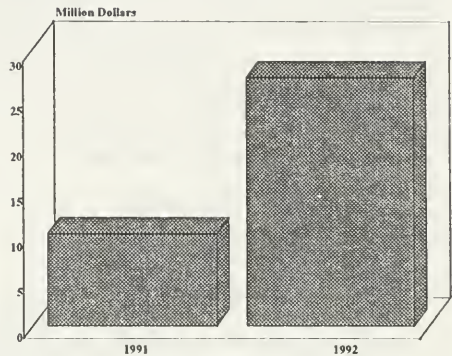
The contractor began work last December with a mission to evaluate the effectiveness of FCA's information systems capability, its capacity and how it is used. The contractor will also help FCA refine its planning process for information resources management (IRM).

The first stage of the plan—to provide an assessment of FCA's current information systems capability, utilization, and IRM planning process—was completed in March 1993. It is being used as a basis for the second stage of the plan—to identify opportunities, to develop a recommended FCA 5-year IRM plan, and to develop procedures for updating the IRM plan annually.

As part of its overview, the report states that it is not intended to be a balanced report. Rather, OGDEN focused on identifying weaknesses, not documenting strengths. In addition, the report notes that, as a general matter, FCA's IRM management problems are typical of other small agencies with relatively young IRM programs.

OGDEN believes that the following four areas are the major problems with the agency's IRM program:

**Farmer Mac II  
Triples Its Volume**





- Lack of senior agency and functional management oversight and direction;
- Mainframe capacity that exceeds the documented needs;
- No connection between strategic business planning process and IRM planning; and
- Lack of an overall IRM management system to evaluate business information needs.

Clearly, the FCA faces significant challenges in tackling these problems. However, I am pleased to quote the conclusion from OGDEN's Executive Summary:

"While there is much to recommend in the IRM Program, there are many problems which need to be addressed. We note that the Chairman asked OGDEN to provide a complete and open assessment so that FCA would know what needed to be fixed. The COO participated in biweekly status reviews with OGDEN so that she could take early action to rectify deficiencies. Other FCA managers have shown great interest in understanding this assessment and a willingness to participate as necessary in managing the IRM function. OGDEN believes that FCA management is positioning itself to make quantum improvements in the functioning of the IRM program."

Mr. Chairman, we are committed to meeting this challenge and we expect to be able to adopt OGDEN's final recommendations as a part of our plans for FY 1994.

### **Resolution of the Federal Intermediate Credit Bank of Jackson Issue**

FCA received a formal letter of intent to merge from the Federal Intermediate Credit Bank (FICB) of Jackson and the Farm Credit Bank (FCB) of Columbia on February 3, 1993. The banks requested that FCA grant a one-time extension of the negotiated merger completion date until October 31, 1993. A provision in the Farm Credit Banks and Associations Safety and Soundness Act of 1992 (1992 Act) allows for this one-time extension if the agency receives a letter of intent to merge and the agency determines that such letter represents a bona fide, good faith agreement in principle to merge. On February 11, the FCA Board determined that the letter of intent executed by the members of the boards of directors and the chief executive officers of the FICB of Jackson and the FCB of Columbia fulfilled the intent of the 1992 Act and approved this one-time extension.

### **Closing of Receiverships**

At the beginning of 1992, there were 12 Farm Credit System institutions in receivership. The FCA Board directed the final actions which led to the completion of eight association receiverships in the Spokane and Omaha Farm Credit Districts, terminated the charters for those eight receiverships, and discharged the FCA-appointed receivers.

Additionally, positive results were achieved with the remaining receiverships. The agency approved the final plan of liquidation for two receiverships. One of those was able to pay a second liquidating dividend exceeding the par value of stock to the stockholders of record at the time that institution was placed in receivership. Further, the assets of this receivership have been reduced from more than \$7.5 million at its onset to slightly more than \$750,000 at yearend 1992. There are no remaining liabilities for this receivership and we anticipate discharging the receiver by yearend 1993.

The other receivership has made progress in reducing its assets from \$16.2 million at the beginning of the receivership to less than \$5.7 million on December 31, 1992. In January 1993, the Farm Credit System Insurance Corporation approved the cash payment for the \$1.2 million of protected borrower stock to the stockholders of record at the time of the closing, thus fulfilling a congressional objective of protecting the System's farmer-borrowers who had loans prior to 1987.

The assets and activities of the receiverships of the Jackson Federal Land Bank and the Federal Land Bank Association consist primarily of a large acquired property and various lawsuits. When originally placed in receivership in May 1988, these two institutions had more than \$1.9 billion in total assets. Those assets were successfully reduced to \$12.4 million by yearend 1992. The number of lawsuits has been reduced from 42 in 1990 to 14 at yearend 1992. In February, settlement was reached in one lawsuit regarding the sale of

the mineral rights from the former Federal Land Bank of Jackson to the Federal Intermediate Credit Bank of Jackson. We anticipate continued progress on the resolution of the remaining lawsuits and in the reduction of the receivership's assets.

#### **FCA's Financial Management System**

During the agency's FY 1993 appropriations hearings, the issue of the FCA's Financial Management System was raised as a concern. We have expended considerable effort in reviewing this system and implementing corrective actions to address those concerns. On April 28, 1993, the FCA Board received the recommendations of the Office of Management and Budget task force and authorized the execution of a formal Memorandum of Understanding to upgrade the agency's Financial Management System with the Financial Management Services of the Department of Treasury. This agreement, executed on May 3, clearly delineates the responsibilities of the FCA and Treasury; provides for the FCA to reimburse Treasury for costs associated with the purchase and implementation of financial management software; and provides for other services that the agency may need for the successful implementation of this Financial Management System.

Once this system is operational, we will be able to produce performance-based income and expense statements. Then we will be able to track our expenses monthly, report on variances, and monitor our projected annual expenditures with much more accuracy and efficiency.

\* \* \* \* \*

Mr. Chairman, I would like to thank you for the opportunity to testify today. The Farm Credit Administration remains committed to serving agriculture by efficiently and effectively regulating the Farm Credit System in order to ensure that farmers have access to sound and constructive credit at competitive rates. Mr. Chairman, we will be pleased to respond to any questions you or the members of the subcommittee may have.

Attachment A

### **FARM CREDIT ADMINISTRATION**

**Fiscal Year 1994 - Explanatory Notes**  
**February 25, 1993**

The Farm Credit Administration (FCA) is an independent agency in the executive branch of the U.S. Government. It is responsible for the regulation and examination of the banks, associations, and related entities that collectively comprise what is known as the Farm Credit System (System), including the Federal Agricultural Mortgage Corporation (Farmer Mac). Initially created by an Executive Order of the President in 1933, the agency now derives its powers and authorities from the Farm Credit Act of 1971, as amended (Act).

The principal activities of the FCA are the administration of the Act through the issuance and approval of amendments to the Federal charters of System institutions; the approval of mergers between System institutions; making annual reports to the Congress on the condition of the System and its institutions; approving the issuance of obligations of the System; establishing the Federal regulations for System institutions; and examining System institutions for compliance with statute, regulations, and safe and sound banking practices. If any System institution is found to be in violation of statute or regulations, or is operating in an unsafe or unsound manner, the agency may utilize its congressionally granted enforcement options to bring about corrective action. In addition, the FCA examines the National Consumer Cooperative Bank annually and presents this Report of Examination to the Banking Committees of the U.S. Senate and the House of Representatives.

Management of the agency is vested in a full-time, three-person board whose members are appointed by the President with the advice and consent of the Senate. The board members serve for a 6-year term and may not be reappointed after they have served a full term. The President also designates the chairman of the board who serves as the agency's chief executive officer.

The FCA does not receive appropriated funds but is subject to legislative action each year for a limitation on its administrative expenses. All of the FCA's administrative expenses are paid by the institutions it regulates and examines.

### Management Study

The report language in the FY 1992 agricultural appropriations bills of both the Senate and the House of Representatives suggested that the FCA contract for an outside study of its management and operations. The management consulting firm of Riso-Dempsey was awarded that contract, and the study was completed in March 1992. The major recommendations of the study were to consider appointing a chief operating officer (COO), to complete a study of the FCA's use of its computer technology, and to eliminate 25 positions by FY 1995.

Implementation of these recommendations should be completed during fiscal year 1993. A COO has been employed and is responsible for the day-to-day management operations of the FCA. One of the major responsibilities to be accomplished by the COO in FY 1994 will be the integration of the agency's strategic plan with FCA's budget.

Additionally, the computer technology study has begun. The study will evaluate the effectiveness of FCA's information systems capability, its capacity and how it is used, and the planning process for information resources management. The study will also identify information system needs and opportunities, develop a recommended FCA 5-year information resource plan, and develop procedures for updating the plan annually. The study is expected to take 6 months to complete. Recommendations from that computer technology study will be implemented, as appropriate, beginning in FY 1994.

### Supervisory Responsibilities

A significant number of FCA examiners, beginning in 1986, were hired directly out of college. Two-thirds of our examiners are now commissioned compared with just slightly more than 40 percent 4 years ago. With their increased knowledge and skills, these commissioned examiners are better able to handle additional responsibilities and a greater workload. Therefore, FCA can effectively carry out its regulatory, enforcement, and examination functions with fewer people.

This is illustrated by a comparison of the System's level of total assets, as reported in the System's combined financial statements, with the number of examiners employed by the agency. The period covered is from December 31, 1988, through September 30, 1992. As shown in this chart, the number of examiners has been reduced from a high of 333 in 1988 to the current level of 241, a reduction of more than 27 percent. During this same period, the System's total assets have remained fairly constant.

	12/31/88	12/31/89	12/31/90	12/31/91	9/30/92
Total Assets (billion \$)	\$61.6	\$63.9	\$63.5	\$62.5	\$63.2
Total Number of Examiners (including regulatory and enforcement examiners)	333	312	280	253	241
Assets per Examiner (billion \$)	\$.18	\$.20	\$.23	\$.25	\$.26

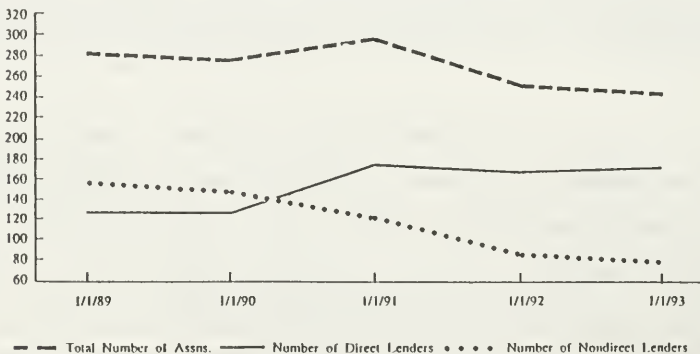
Other factors have led and may lead to increased costs for the examination function. One major factor is the structure of the System. The statute requires that FCA examine each direct lending institution of the System at least once each year. On January 1, 1989, there were 127 direct lending associations. On January 1, 1993, direct lenders had increased to 166. On the other hand, on January 1, 1989, there were 154 Federal Land Bank Associations (FLBAs) which were not direct lenders and consequently had to be examined only every 3 years. On January 1, 1993, there were 77 FLBAs, which require less effort to examine than direct lenders. This increase of direct lender associations requires more examination effort and resources than the savings generated by 77 fewer FLBAs. Therefore, while the total number of associations has declined from 281 on January 1, 1989, to 243 on January 1, 1993, the number of direct lending associations subject to annual examination has increased by 39, or about 30 percent. This trend is expected to continue throughout FY 1994, resulting in additional demands on FCA's examination, enforcement, and legal staffs.

In addition to the examinations of associations, the agency conducts annual examinations of the 10 Farm Credit Banks, the 3 Banks for Cooperatives, the Federal Intermediate Credit Bank of Jackson, the Farm Credit System Funding Corporation, Farmer Mac, and the other System service institutions. These examinations are generally more complex and require significantly more resources than most association examinations. As of September 30, 1992, the Office of Examination had a field examination staff of 205 examiners devoted to the completion of all of these examination responsibilities.

The following charts show the number of System associations by category and the frequency of FCA examinations for each type of association.

Date	Total	Direct Lender Associations Requiring Annual Examinations	Nondirect Lender Associations Requiring Tri-annual Examinations
1/1/89	281	127	154
1/1/90	272	126	146
1/1/91	293	173	120
1/1/92	250	165	85
1/1/93	243	166	77

System Associations Requiring Examinations  
Direct Lenders vs. Nondirect Lenders





## Employee Compensation

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) required that compensation of employees of Federal financial institution regulators be comparable. The agency has responded to this mandate by targeting its staff's compensation at the average of the compensation of the other regulators. In 1991 FCA compensation was about 9 percent below this average. After pay increases in FY 1992 and FY 1993, FCA salaries will be on a par with the average market rate paid by the other Federal financial institution regulators.

## Recommendations from the FY 1993 Congressional Appropriation Reports

On October 15, 1992, the FCA Board voted to implement the committee report language outlined in Public Law 102-341 (the FY 1993 agricultural appropriations). Those recommendations and a summary of their implementation by the agency follows:

- (1) "The Committee is concerned by indications that examination functions would be curtailed due to the House reduction to the budget request. No reductions for such functions have been provided in this recommendation."

As explained above, the examination function is not being reduced in FY 1993 due to the reduction in the FY 1993 administrative expense limitation. However, examination scope should be reduced due to the passage of Public Law 102-552, which allows the FCA some increased flexibility in defining the scope of examinations.

- (2) "The Committee will expect the FCA Board, acting in its capacity as the Farm Credit System Insurance Corporation (FCSIC) Board, to carefully monitor the growth in FCSIC expenditures. Further, it is unacceptable to the Committee to have FCA expenses shifted to FCSIC or to have FCSIC obligations increase as a result of the Committee's action to reduce FCA obligations."

The Farm Credit System Insurance Corporation's (Corporation) expenses and staff have not increased as a result of congressionally imposed cuts to the FCA's budget. Increases in expenses are related to the Corporation's moving into an operational mode. The Corporation has implemented an agreement with the agency which governs how FCA reimbursable services will be provided to the Corporation. The agreement requires that all FCA reimbursable services on behalf of the Corporation be pre-approved by the Corporation's chief operating officer. The Corporation has implemented procedures and internal controls to ensure that all FCA reimbursable services are properly pre-approved and post reviewed prior to payment. The Corporation requires the FCA to submit a detailed monthly billing supporting all charges. This billing is audited by Corporation staff prior to payment. In contracting for services, the Corporation evaluates whether FCA or other sources are most cost effective.

- (3) "Information describes excess supervisory staff . . ."

The following supervisory positions were eliminated: the director and four associate directors of the former Policy and Risk Analysis Division; two other supervisors in the Policy and Risk Analysis Division; the chief of the former Training Division; and the deputy director of the Office of Resources Management. The Riso-Dempsey study also recommended that the Office of Examination eliminate some of its management positions and the Office of General Counsel study its management structure. Although the consultant did not recommend immediate action, both offices have been restructured.

The Office of Examination reduced its management structure effective January 1993. This was possible because the expertise of the examination staff has improved substantially in recent years as many examiners have completed training and become commissioned. There-

fore, intensive supervision of the examination staff is no longer necessary, and the 19 former managers are now able to directly handle complex examinations.

The Office of General Counsel reassigned the three Assistant General Counsels from line management positions. The restructured OGC has two divisions, each headed by an Associate General Counsel, with eight attorneys assigned to each division.

**(4) “. . . excess personnel . . . ”**

The Riso-Dempsey study of FCA management recommended a net reduction of 15 positions for FY 1993. FCA agreed with the majority of the consultant's recommendations, but eliminated 40 positions—more than twice the actual number recommended.

**(5) “. . . lack of cost analysis for equipment purchases . . . ”**

The FCA Board concurs that cost analysis for equipment purchases is a sound business practice and the agency will undertake the necessary efforts to evaluate all significant expenditures under these guidelines. Written procedures have been drafted to ensure compliance with this recommendation. These procedures should be issued within the next month.

**(6) “. . . expenses for personal business cards . . . ”**

The FCA does not purchase business cards for its employees.

**(7) “. . . headquarters staff going out of the Washington, D.C. area on per diem to meet with headquarters staff.”**

In August 1992, the CEO issued a memorandum stating “. . . it is prudent that staff meetings and conferences be held as close to home as possible. As a general rule, staff meetings will be held within the local commuting area or at FCA offices. I understand that there may be occasions when FCA or local facilities may not be suitable, and I will consider requests for exceptions on a case-by-case basis.”

**(8) “. . . the Committee expects the FCA to establish a Chief Operating Officer to professionally manage the agency. This position should report to the FCA Board.”**

A COO reported for work in November 1992. She reports to the FCA Board on policy matters and operates under the direction of the agency's chief executive officer in accordance with policies and administrative objectives established by the CEO and the FCA Board. The COO has broad responsibility for supervising the development and implementation of the agency budget and operating program.

**(9) “The Committee expects the FCA to initiate several additional management actions, including complying with all Federal Acquisition Regulations (FAR) and Comptroller General opinions related to expenses.”**

In a resolution dated October 15, 1992, the FCA Board confirmed its position to comply with this recommendation. The Board has directed staff to competitively bid all contracts, unless a sole source contract is justified under FAR, and to develop procedures that comply with the spirit of all applicable Federal Acquisition Regulations and Comptroller General opinions regarding administrative expenses. These procedures will be finalized during the current fiscal year and implemented immediately upon completion.

**(10) “The agency should also scrutinize the expenses of the Farm Credit Building Association to assure they are necessary and cost-efficient. The operation and maintenance expenses of the headquarters building appear to be excessive when compared to GSA costs for similar space in the McLean, Virginia area.”**

Prior to the November 1992 meeting, the agency completed an in-depth review of the Farm Credit System Building Association and the expenses of its operations. The Board subsequently adopted a budget for the building association for calendar year 1993 that reduces the building association's expenses by \$100,000. Moreover, the Board initiated a study by an engineering firm of the association's capital needs in order to determine an appropriate amount for a capital reserve fund. At the time of the study, the association's reserves were approximately \$4.7 million. The study determined that the primary capital replacement and repair needs of the building could be met over the next 10-year period with a reserve of \$1.225 million, in net present value dollars.

After the establishment of a new capital reserve account at this level, the Board voted to use the remainder of the former reserve account to fund 1993 operations. This amount, together with other building association income, will cover 1993 operating expenses without the need for an assessment. In addition, the Board adopted a policy to institute new operating procedures designed to continue this effort to monitor the association's costs.

The General Accounting Office has started a study in compliance with a provision included in Public Law 102-552 which stated, "The Comptroller General of the United States shall evaluate and report to the appropriate committees of Congress on the potential savings to the Farm Credit System and its shareholders that might occur if System institutions and the FCA were required to comply with General Services Administration standards for office space, furniture, and equipment." This report is due to be provided to Congress by October 28, 1993.

**(11) "... the agency should review the personnel requirements and expenses of the Farm Credit System Insurance Corporation."**

The Corporation plans to operate with a small core staff. The Corporation's board of directors voted to approve a budget for FY 1994, which included 11 FTEs. In earlier budget submissions, FTEs for FY 1994 were estimated at 16. Staffing and other expenses are being minimized by relying on the FCA for examination, legal, and administrative support. The Corporation is also setting up other contractual arrangements which will provide specialized expertise as needed rather than adding staff to prepare for all contingencies. For example, specialized accounting and asset valuation services may be needed in the event the Corporation is appointed as a receiver.

## **Conclusion**

The agency has acted to meet all recommendations regarding its budget mandated by the Congress during the current fiscal year. With the completion of the computer technology study, anticipated in June 1993, all of the recommendations in the Riso-Dempsey management study will have been considered and addressed.

In the proposed FY 1994 budget, the agency will request funding for the resources necessary to carry out its mission to ensure the safe and sound operation of the banks, associations, and related entities of the Farm Credit System.





## FARM CREDIT ADMINISTRATION

### Addendum to the Fiscal Year 1994 Explanatory Notes April 8, 1993

FCA proposes a budget of \$41.68 million for FY 1994. The FY 1994 budget for administrative expenses of the FCA represents a \$1.775 million increase, or 4.4 percent over the agency budget for FY 1993. This proposed increase, if approved, will be the first increase in the agency's budget since FY 1991.

The following chart represents the changes in the amount of the agency's budget each fiscal year since 1987. Reflected in this chart is the percentage of annual budget increase compared with the corresponding inflation factor, as measured by the Consumer Price Index. Inflation figures for 1993 and 1994 are Government projections, while the FCA budgets are the amounts authorized by the Congress, with the exception of FY 1994, which is FCA's proposed budget. As the bolded portion of the chart shows, the overall average rate of increase in the FCA's budget has been less than the rate of inflation for the period since 1987.

Year	1987	1988	1989	1990	1991	1992	1993	1994	Average
Budget (million \$)	\$39.4	\$35.0	\$34.9	\$36.1	\$40.3	\$40.3	\$39.9	\$41.7	
% Increase	N/A	(11.2)	(0.3)	3.4	11.6	0.0	(1.0)	4.4	1.0
% Inflation	N/A	4.1	4.8	5.4	4.2	2.8	3.2	3.6	4.0

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) required that compensation of employees of Federal financial institution regulators be comparable. The agency has responded to this mandate by targeting its staff's compensation at the average of the compensation of the other regulators. In 1991 FCA compensation was about 9 percent below this average. After pay increases in FY 1992 and FY 1993, FCA salaries are on par with the average market rate paid by the other Federal financial institution regulators.

Almost 82 percent of the FY 1994 budget is for employee compensation and personnel benefits. Over 80 percent of the increase in FCA's projected needs for 1994 is for merit pay adjustments and career ladder promotions for agency employees and the benefits associated with these salary increases. Without the budget authority necessary to continue with the current pay-for-performance salary program, the FCA's competitive position would fall below that of other regulators and the potential for additional losses of highly skilled personnel would increase.

Included in the proposed FY 1994 budget is a \$200,000 request to obtain outside expertise to assist the agency's Risk Analysis Division in performing an assessment of internal and external risks and the possible solutions to control those risks. To the extent possible, this risk assessment will be performed internally with the requested funds used only to obtain the specialized outside expertise needed to complete this project.

Approximately \$125,000 is requested for another contract for an independent public accountant to audit the agency's financial statements. The agency will prepare its financial statements in 1993 based on generally accepted accounting principles that are applicable for government agencies. This audit of the financial statements will be conducted under the purview of the Inspector General. Special emphasis will be placed on evaluating the existence and appropriateness of the agency's controls over its financial statements.

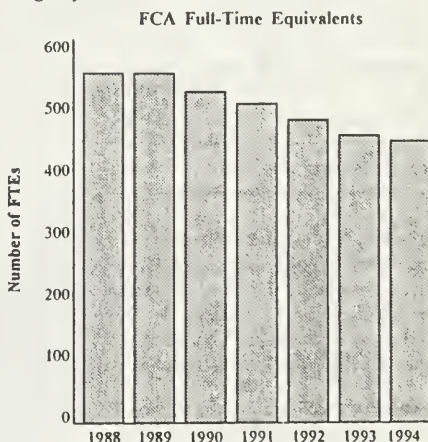
The balance of the proposed increase will cover general agency operating cost increases associated with employee relocations, supplies, and other miscellaneous items. The FCA also plans to install a new accounting system during FY 1993. Through the use of this new system, the agency will be better able to scrutinize all expenses to ensure improved efficiency in its oversight of the institutions it regulates and examines.

### Staffing Requirements

The Office of Resources Management has reduced its staff through the consolidation of the former Training Division with other personnel functions. The FCA determined that its training effort, which was expanded in 1986 to develop a large group of entry level employees into a professional corps of commissioned examiners, could be decreased now that this developmental process has been largely achieved. During FY 1994, FCA staff levels will continue to decrease in greater proportions than the recommendations in the Riso-Dempsey study. The agency is proposing to reduce the number of its full-time equivalents (FTEs) from 464 FTEs in FY 1993 to 453.8 FTEs in FY 1994. Subsequent to the approval of the agency's FY 1993 budget, Executive Order 12839, dated February 10, 1993, required the FCA to reduce the level of FTEs from 464 to 459 in FY 1993 and 452.8 in FY 1994. The FY 1994 budget reflects the agency's compliance with this Order.

The following charts indicate FTE levels for the agency:

Fiscal Year	Full-Time Equivalents
1988	565.3
1989	565.3
1990	532.7
1991	514.7
1992	486.6
1993	459.0
1994	452.8



Sixty percent of the agency's employees in FY 1994 will work in the Office of Examination, and the salaries and benefits associated with this more senior, experienced staff are significantly higher than they were in FY 1991, the last year the agency was granted an increase in its administrative expense limitation. Flexibility in the scope of FCA examinations, provided by the Farm Credit Banks and Associations Safety and Soundness Act of 1992 (Public Law 102-552), will assist the agency in accomplishing its mission to examine and regulate the System with fewer employees. Already, we believe this new flexibility has contributed to a preliminary reduction of at least six additional FTEs in FY 1994.

### Request for Removal of Administrative Expense Limitations for Selected Offices

The FY 1993 appropriations law provided for the following administrative expense limitations for three offices within FCA:

#### (1) \$2 million for the Office of General Counsel—

The Office of General Counsel will limit expenditures to \$2 million in FY 1993. It has reduced its staff through a reduction in force which eliminated four attorney positions and one

paralegal assistant. The FY 1994 budget proposes a 7.2-percent increase in expenses for that office; however, the number of FTEs remains the same as in FY 1993. The proposed budget requests that the administrative expense limitation for this office be removed.

**(2) \$500,000 for the Office of Congressional and Public Affairs—**

This office will limit its expenditures to \$500,000 in FY 1993. It has reduced its staff from an approved level of eight to five FTEs. The FY 1994 budget proposes an 8.4-percent increase in expenses in that office; however, the number of FTEs remains the same as in FY 1993. The proposed budget requests the administrative expense limitation for this office be removed.

**(3) \$300,000 for the Office of Secondary Market Oversight—**

The office will limit expenditures to \$300,000 in FY 1993. It was anticipated this office would be staffed with a director, an analyst, and a secretary. A director was hired and reported for duty in August 1992. No other permanent staff will be employed in this office during FY 1993 and no increase in staff is projected for FY 1994. FCA staff will be used on a reimbursable basis to complete the annual examination, carry out minimal regulatory development work, and provide basic support services to the director.

The budget reduction, as well as lack of available data, will make it impossible for OSMO to carry out its statutory mandate to do a stress study and write regulations implementing capital standards by the December 31, 1993 deadline. The FY 1994 budget proposes an 8.8-percent increase in the expenses in that office; however, the number of FTEs remains the same as it is in FY 1993. The proposed budget requests the administrative expense limitation for this office be removed.

**Agency Offices with Administrative Expense Limitations**

Following is a chart of the actual and/or authorized FTEs for the Office of General Counsel, the Office of Congressional and Public Affairs, and the Office of Secondary Market Oversight. Fiscal years 1987 through 1992 are actual FTE levels, FY 1993 is the current authorized FTE level, and FY 1994 is the proposed level.

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
OGC	15.2	18.8	21.1	19.8	24.3	24.9	20.8	20.8
OCPA	7.8	7.2	6.2	4.6	6.7	6.8	5.2	5.0
OSMO						0.13	1.0	1.0

**Conclusion**

The agency has acted to meet all recommendations regarding its budget mandated by the Congress during the current fiscal year. With the completion of the computer technology study, anticipated in June 1993, all of the recommendations in the Riso-Dempsey management study will have been considered and addressed.

In the proposed FY 1994 budget, the agency requests funding for the resources necessary to carry out its mission and requests the removal of the administrative expense limitations for selected offices.

## SYSTEM EARNINGS

Senator BUMPERS. To tell you the truth, you have anticipated most of the questions I was going to ask you, and I will probably submit the others in writing.

On page four of your testimony, I want to make sure I understand that graph. Did the Farm Credit System earn \$811 million in 1991? Is that what that graph says?

Mr. STEELE. Yes; the Farm Credit System earned \$811 million in 1991.

Senator BUMPERS. And in 1992 you upped that to \$986 million, almost \$1 billion, is that correct?

Mr. STEELE. Yes, sir.

Senator BUMPERS. What are your outstanding obligations, I mean your outstanding loans and so on? I am not sure I understand precisely how you earned that money.

Mr. STEELE. Well, we did not earn it, sir. The System earned it. We are the regulator of the System.

Senator BUMPERS. The Farm Credit System.

Mr. STEELE. The System earned the money primarily in two ways. First, the loan volume has remained rather constant, almost plateaued for the last 4 to 5 years.

Senator BUMPERS. That is what I wanted to ask you about, your loan portfolio.

Mr. STEELE. So, Mr. Chairman, earnings are up because farmers have been in a stronger financial condition over the past few years.

No. 2, the cost of money to the System is down. The spread between treasuries and what the System pays is very narrow—in fact, the spread is only about eight basis points. This then has enabled the System to add to their reserves.

## FARMER MAC

Senator BUMPERS. Mr. Steele, there is one thing I do not understand, and I want you to give me a brief explanation of it, and that is Farmer Mac and Farmer Mac II. Is that a separate agency from the Farm Credit Administration? Do you regulate that, or is that something within the Farm Credit Administration?

Mr. STEELE. Mr. Chairman, it is a separate entity. It was created by Congress in 1987, and we are responsible for regulating and examining it. It is a secondary market entity.

Senator BUMPERS. Now, does that agency buy Government-guaranteed loans that the Farmer's Home Administration makes, for example? If I am a banker, and I have an 80-percent guaranteed loan, can I take it and sell it to Farmer Mac?

Mr. STEELE. Yes.

Senator BUMPERS. What other kinds of loans?

Mr. STEELE. Both commercial lenders and the Farm Credit System can sell agricultural real estate loans not guaranteed by FmHA into pools of loans backing securities guaranteed by Farmer Mac.



## SYSTEM STRUCTURE

Senator BUMPERS. Now, what are the other institutions that the Farm Credit Administration is made up of now? You have the old PCA's, the Federal Land Bank. What else?

Mr. STEELE. The Farm Credit System structure, includes the Farm Credit Banks, agricultural credit associations, which are both long- and short-term lenders, Federal land bank associations and Federal land credit associations, which are long-term lenders, production credit associations, which are short-term lenders, and three banks for cooperatives.

The FCA is responsible for chartering institutions when we have been asked to by those banks or those associations, but it is the stockholders who determine if they want to change those structures. I believe in the testimony you will see a map of the United States.

Senator BUMPERS. I am looking at it right now. Chart A.

Mr. STEELE. There you can see the different kinds of institutions across the country.

Senator BUMPERS. Yes; what is FLCA?

Mr. STEELE. That is a direct long-term lender, a Federal Land Credit Association.

Senator BUMPERS. Well, is that like a Federal Land Bank loan—

Mr. STEELE. Yes; it is for long-term loans—

Senator BUMPERS. On real estate?

Mr. STEELE. Yes.

## INTEREST RATES

Senator BUMPERS. What is the going rate on real estate right now? What do they charge, do you know?

Mr. STEELE. That would depend upon each institution. They have the freedom, the authority—

Senator BUMPERS. Is that each institution or each region?

Mr. STEELE. Each institution.

Senator BUMPERS. Each bank can charge what it wants to?

Mr. STEELE. That is correct, as long as they stay within the sound business practices.

Senator BUMPERS. As determined by you? As determined by the Farm Credit Administration?

Mr. STEELE. Through existing Federal laws and regulations, as well as FCA examinations, yes. Also, the associations have that capacity, too, to set interest rates, depending upon their relationship with the bank, and what that association is. But ACA's can set their interest rates, too.

Senator BUMPERS. Now, does the Farm Credit Administration audit these institutions just like the FDIC audits the national bank?

Mr. STEELE. We do, but there are some differences. For example, we must examine every direct lender every year, which is different than other regulators.

The indirect lender, Federal land bank associations, we must audit them every 3 years. Now, when I say audit, it is to examine, thoroughly examine through our licensed bank examiners.

## FARMER MAC

Senator BUMPERS. Well, now, do you audit the Farmer Mac System, too?

Mr. STEELE. Yes, we do. We have a separate office in FCA, at the direction of Congress, and this separate office of one person is responsible for oversight of examination of Farmer Mac.

The office director utilizes the resources of FCA, such as examination team, the legal capabilities, and other people to help her in her task to carry this duty out.

Senator BUMPERS. But still, you do not cost the taxpayers any money, and you are making money, so I do not have any further questions of you.

Mr. STEELE. Thank you, Mr. Chairman.

Senator BUMPERS. Senator Cochran.

## CHANGES IN THE AGRICULTURE ECONOMY

Senator COCHRAN. Mr. Chairman, one thing that you examined in your testimony was the financial condition of American farmers, and the land value situation, and the prospects for the next few years.

I noticed that you observed that in real terms, when measured against the inflation rate, there has been some erosion of both the land values and net farm income.

When you consider that, and also the fact that the House Agriculture Committee reported out a reconciliation bill last week that would cut \$3 billion of farm program payments to farmers over the next 5 years, that the Ways and Means Committee in the House reported out a bill that would impose a 50-cent-per-gallon additional diesel fuel tax on waterway users, and that there are other new taxes imposed in the bill by the Ways and Means Committee, is this going to jeopardize the prospects for farmers to continue to operate profitably? Is this a matter of concern to the Farm Credit Administration?

Mr. STEELE. Senator Cochran, this is a concern. I would like to answer your question in three different pieces.

First, we do not know yet what the action of the Congress will be on the proposal of modifying, changing, or lowering the benefits of the past programs of the farmers and ranchers of the Nation.

Second, historically farmers, particularly the grain farmers over large sections of the country, have stabilized their income through participating in the Government programs.

So if that is decreased significantly, that will have quite an effect upon the stability that has been there in the past. And it could have an effect upon how farmers will be able to take care of their outstanding debts.

Third, I would like to answer your question on the energy tax. I have seen some figures, not our own, but published figures from other organizations. I cannot swear to their validity.

But on the energy taxes that have been spoken of, that have been publicly announced, some of these organizations have said that this will cost a corn producer an additional \$20 per acre.

So these are the three basic areas. First, we do not know what the changes will be; second, what the history has been of the payments; and third, what may be the case with energy.

#### USE OF DISCOUNT NOTES

Senator COCHRAN. I noticed also in your testimony that you mention a concern about the use of discount notes to reduce the Farm Credit System's earnings if interest rates rise.

How much of a risk is this, and what is being done, if anything, to prevent this from having any long-term adverse effect on the System?

Mr. STEELE. Senator Cochran, we plan to use part of the \$41.6 million budget request for fiscal year 1994 for a risk study of the System.

There are several risks to the System that, as the System modifies its procedures, as agriculture changes, as our society changes, we do need, as a regulator, to study these risks very carefully, and this is an area to which we would be turning our attention in fiscal year 1994.

Senator COCHRAN. I noticed that you commented about the merger of the Columbia Farm Credit Bank and the Federal Intermediate Credit Bank of Jackson.

I just want to congratulate you and the other members of the Board for the efforts that you have made to help resolve situations that have developed like this. I am glad to see that the expected merger will be finalized before the extended deadline expires. That is encouraging news.

I guess this last question I was going to ask—

Mr. STEELE. Senator Cochran, excuse me. I think Mr. Byrne wanted to address himself to your previous question.

Senator COCHRAN. OK.

Mr. BYRNE. On that previous question having to do with the asset liability management process, we do oversee that. We monitor it carefully. Right now, basically, in terms of asset liability maturities, they are basically neutral.

So we are fairly comfortable. I think you are aware that back in the 1980's, the system basically borrowed long, and lent short, and that was a significant cause of many of their problems. And now we want to be certain that they are not borrowing short, and lending long. So we do monitor that very closely.

#### FARM CREDIT SYSTEM INSURANCE CORPORATION

Senator COCHRAN. That is good to know. I was going to ask you, Mr. Byrne, particularly, about the Farm Credit System Insurance Corporation. I know that you serve as chairman of that, and that the Farm Credit Assistance Board was terminated on December 31, 1992, and the responsibility for monitoring assisted banks has been transferred to the Insurance Corporation.

Could you give us a quick summary report on the status of the insurance fund?

Mr. BYRNE. Sure. The insurance fund is currently about \$514 million. The total corporate assets are about \$680 million. The dif-

ference is a liability that has been set aside as a reserve for repayment of obligations that will become due in the year 2003.

Last year, the System paid premiums of about \$74 million, and had interest earned on assets of about \$36.9 million. The total costs to the System for the insurance operation were about \$1.2 million. The insurance corporation operates with nine full-time employees.

Senator COCHRAN. My question of Billy Ross Brown is: Are the crappies still biting at Sardis?

Mr. BROWN. I heard last week that they quit biting.

Senator COCHRAN. That is good to have that information, so we can plan some of our trips down there around that. Mr. Chairman, I do not have any other questions.

#### SUBMITTED QUESTIONS

Senator BUMPERS. Thank you very much, Senator Cochran. Gentlemen, thank you very much for being with us. Additional questions will be submitted for written responses and we ask you to respond to them within 5 days.

[The following questions were not asked at the hearing, but were submitted to the agency for response subsequent to the hearing:]



## QUESTIONS SUBMITTED BY SENATOR BUMPERS

### ADP Computer Costs

Question: What are you spending in FY 1993 for computer and other ADP purchases, updating and/or modifications?

Answer: For FY 1993, we are currently estimating that \$821,000 will be spent on ADP contractual services, ADP equipment maintenance and repair, and software maintenance. An estimated \$364,000 will be spent on ADP hardware and major software, and \$139,000 for manuals and off-the-shelf software.

Question: What is in the FY 1994 budget for these purposes?

Answer: For FY 1994, we are currently estimating that \$875,000 will be spent on ADP contractual services, ADP equipment maintenance and repair, and software maintenance. We also estimate \$328,000 will be spent on ADP hardware and major software, and \$123,000 for manuals and off-the-shelf software.

### Refinancing

I note that one of the big factors for the farm economy has been the reduction in interest rates. I know that much of a farmer's debt is long term.

Question: Is a farmer able to refinance relatively easily through the Farm Credit System?

Answer: Most can. The ease differs, depending on the type of loan the borrower has chosen and the borrower's past repayment performance and prospective repayment ability.

If a borrower originally chose an adjustable-rate loan contract (either variable or indexed), no refinancing is generally required to obtain a lower interest rate. Adjustable-rate contracts constitute about 82 percent of the System loan volume outstanding as of March 31, 1993. Interest rates adjust on these loans according to terms of the individual loan agreements. The adjustments may either be tied to a specific index outside the control of the institution, or may be made at the discretion of the institution's board.

The board, elected by the institution's owner-borrowers, also has the obligation to follow a business plan which generates adequate earnings at the institution (including funds needed to maintain capital strength). This requirement for adequate earnings can constrain the ability of the institution to lower rates unless the institution's costs have declined. In other circumstances, the adequate earnings standard may require the board to increase rates charged.

System institutions may also offer fixed-interest-rate loans to customers who prefer this kind of financing. In the case of fixed-rate programs, a refinancing would be required in order to adjust the interest rate. These refinance requests are treated on a case-by-case basis, varying with the risk involved in the loan and with the policies of each individual System institution.

Question: What kind of fees are charged for a refinancing?

Answer: For adjustable-rate loans, adjustment is provided as part of the loan contract, and usually does not involve an additional fee. Should the borrower wish to change to a different adjustable-rate program, a conversion fee may be charged. Section 4.13 of the Farm Credit Act and FCA regulations require that a borrower be notified each time an action is taken to adjust interest rates.

If a refinancing is required for a fixed-rate loan, it would generally be treated as a new loan. FCA regulations permit reasonable charges or fees for loans or services. These are determined by each institution's board.

Question: Are the institutions allowed to have prepayment penalties? If so, what is their range?

Answer: In general, there are no fees for variable-rate loans. For fixed-rate loans, adjustable-rate mortgages, and for conversion from one loan plan to another, FCA regulations permit the institution to have reasonable prepayment penalties. Any such penalties would be a part of the loan program approved by the institution's board and selected by the borrower, and are described in the disclosures made at the time the loan was taken out.

With regard to both prepayment penalties and refinancing fees, it should be noted that the farmer-borrowers own the institutions and generally constitute their boards of directors. Assuming an institution is financially sound, this fact works to ensure that fees and refinancing policies are as reasonable and favorable as is prudent for the institutions.

#### **Farm Credit Banks and Associations Safety and Soundness Act**

The Farm Credit Banks and Associations Safety and Soundness Act of 1992 contained several provisions which might have a direct impact on the FCA's operations. Section 512 of the legislation provided FCA greater flexibility in carrying out the exam function.

Question: Please provide the Committee with some details as to how this change in law will affect the examination function.

Answer: This legislation provided the Farm Credit Administration increased flexibility to define the scope of an examination. Prior to these amendments the law stipulated that "examinations shall include, but are not limited to, an analysis of credit and collateral quality and capitalization of the institution, and appraisals of the effectiveness of the institution's management and application of policies governing the carrying out of this Act and regulations of the Farm Credit Administration and servicing all eligible borrowers." The 1992 amendments substituted the word may for shall, thus permitting the agency to be more flexible in setting the scope of an examination.

Staff has developed a proposed FCA Board policy statement regarding the scope of an examination, which requires that examinations be based on the safety and soundness threats inherent in an institution. This would mandate the assignment of examination resources based on the financial condition of a Farm Credit institution. The FCA remains constantly aware of the condition of institutions through its ongoing oversight and examination processes. The depth of testing during an examination will therefore be based primarily on the risk in the institution, allowing differential allocation of examination resources. In other words, examiners will focus their efforts on those areas and operations of an institution where significant risk is identified. Where no concerns exist, little, if any, resources would be devoted.

Question: Will these changes result in lower costs? If so, when might we see this reflected in FCA's budget?

Answer: The 1993 examinations have begun to reflect a reduction in staff resources based on the change in legislation. As an interim step, where we have determined from all information available to us that certain operational areas are sound, we have reduced the scope of examination in those areas. Flexibility in the scope of exams, provided by the 1992 Act, will assist the agency in accomplishing its mission to examine and regulate the System with fewer employees. Already, we believe this new flexibility has contributed to a preliminary reduction of at least six additional FTEs in FY 1994.

We have asked staff to prepare a formal Board policy describing, in more detail, when and how reduced-scope examinations could be used and to estimate the savings we might realize from such a policy. Staff has briefed the Board on a framework for a new Board policy. Examinations will emphasize the areas and operations where significant risk is identified based on the examiners' judgment in consideration of the results of previous examinations, the CAMEL ratings, oversight between examinations, and guidance provided by FCA senior management on areas of risk that should be given special emphasis. The FY 1994 Examination Schedule is under development and the final schedule will incorporate the Board policy once it is adopted. If this schedule results in a reduction of more than the six FTEs that we identified in budgeting for FY 1994, we will adjust our budget so that we do not assess the System for the expenses associated with these FTEs.

#### Congressional and Public Affairs and General Counsel

Last year the Committee imposed a specific limit on the Office of Congressional and Public Affairs.

Question: Was the operation of that Office negatively impacted by that limit? If so, please describe what specific activities had to be curtailed or eliminated as a result of the limitation.

Answer: The budget limitation placed on the Office of Congressional and Public Affairs (OCPA) required a staff reduction. This has affected the office's analysis of legislative issues, support for the agency's mission and general agency communications both within the agency and with outside publics. Because more than 95 percent of the office's budget is for salaries and benefits, the OCPA was required to reduce its staff from eight authorized positions to five. One vacant position was abolished and the incumbent in another position was terminated. A third position in OCPA, the agency's principal speechwriter/Freedom of Information Act Officer, was transferred to the Office of Special Supervision and Corporate Affairs (OSSCA) because the work performed by that individual is necessary for the agency.

The OCPA reduced internal communications as a result of the budget limitations. Prior to FY 1993, OCPA published a weekly employee newsletter using in-house duplicating facilities. Currently, OCPA's reporting effort is limited to mandatory announcements to employees rather than in-depth reporting on broader activities of the agency which is an important element of teambuilding. This has resulted in a negative impact on employee morale as agency employees are not as well-informed this year as they have been in the past. Funding for OCPA staff training has been severely restricted due to the budget

limitation and if personnel development needs are indefinitely postponed, then both the individual and the agency will suffer. Our primary concern has been that OCPA staff reductions have limited analysis of legislative issues and briefings. Staff limitations have resulted in OCPA's not being able to provide timely responses to Members of Congress and their staffs regarding FCA and System issues.

In FY 1993, OCPA expects to respond to approximately 500 written inquiries from Members of Congress and borrowers of System institutions. The majority of these inquiries are in regard to borrower complaints. In addition, the OCPA staff responds to approximately 500 general information inquiries annually. Although we continue to respond to these inquiries, turnaround time has increased.

Question: A similar limit was placed on the Office of General Counsel. What was the impact of that limit on the Office's efforts?

Answer: In order to meet the limit, the Office of General Counsel (OGC) implemented a reduction in force that resulted in the separation of four attorneys and one paralegal. Another paralegal, who serves as the agency Federal Register Liaison Officer in support of regulation development, and a secretary were transferred to the Regulation Development Division. These actions reduced the OGC staff by about 25 percent. While the OGC has continued to provide essential core legal services, it reduced the level of legal assistance in day-to-day operations. For example, attorneys no longer regularly accompany Enforcement Division staff when enforcement documents are served on System institutions. Negotiations that were conducted face to face are now conducted by telephone. While the budget limitations were addressed principally by reducing salary and benefit dollars, the Office of General Counsel cut other expenditures as well. Training was limited as were other basic administrative expenses.

Question: If these two limitations are continued in FY 1994, what will be the impact specifically on the Office of Congressional and Public Affairs and the Office of General Counsel?

Answer: While we have requested that the caps be removed, you should know that the proposed FY 1994 budget contemplates only a modest increase for each office beyond the FY 1993 ceilings.

In the case of OCPA, the Board adopted a budget which would increase the FY 1993 cap of \$500,000 to \$532,000 in FY 1994, an increase of 6.4 percent. In the case of OGC, the adopted budget would increase the FY 1993 cap of \$2,000,000 to \$2,144,000, an increase of 7.2 percent.

In both cases, the increases would primarily maintain the FY 1993 status quo relative to each organization's ability to function. This fact is a source of some concern to the Board, since the increase assumptions are based on genuinely conservative estimates of travel and other factors. Even with this increase, should those assumptions prove incorrect, it may be necessary to terminate additional employees.

While our objective would be to "make do" with the modest increases we have provided for internally, as outlined in our response to previous questions, we are concerned about some of those functions which may suffer as a result of the FY 1993 cap as well as our ability to respond to new challenges that might occur during FY 1994. For example, it is possible that a credit title will be included in the 1995 Farm Bill. This could impact OCPA



and OGC functions during FY 1994. The removal of the cap would allow the Board flexibility to respond to this and other contingencies.

### Office of Secondary Market Oversight

**Question:** Is the current limitation on the budget of the Office of Secondary Market Oversight (OSMO) resulting in that Office's failure to meet statutorily mandated deadlines?

**Answer:** OSMO has two statutory deadlines for FY 1994. First, OSMO is required by 12 U.S.C 2279bb-1 to establish by regulation, a risk-based capital test for Farmer Mac no later than December 13, 1993. Second, OSMO is required by section 514 of Public Law 102-552 to develop conflict of interest and disclosure regulations governing Farmer Mac by October 1993. FCA expects that the risk-based capital test will not be completed by the statutory deadline, partly due to budget limitations but also due to problems obtaining needed historical data on the period of agricultural defaults and losses. FCA expects that the conflict of interest and disclosure regulations will be proposed before the deadline; however, it is unlikely that these regulations can be finalized by the deadline.

OSMO used FY 1992 funds to address some of the data limitations and regulatory concerns that must be resolved before these regulations can be completed. For example, OSMO awarded a contract to the University of Illinois to assist in the development of agricultural default and loss information. OSMO also issued a purchase order using FY 1992 funds to evaluate the policy options available to OSMO should the stress test not be completed by the statutory deadline. The purchase order also requested evaluation of how FCA and SEC regulations should be harmonized for Farmer Mac--an issue that is relevant to regulations on conflict of interest and disclosure where both regulatory agencies have jurisdiction over Farmer Mac.

FCA is attempting to use the resources that have been made available to accomplish the requirements of the statute, but the risk-based capital test deadline will not be achieved.

**Question:** What funding level for OSMO will be necessary for it to carry out fully what it is charged with doing?

**Answer:** OSMO has certain responsibilities that are annual on-going activities and others that are much more difficult to predict with any certainty. The on-going activities are relatively easy to budget. For example, OSMO is required to perform an annual examination of Farmer Mac. OSMO also monitors the condition (including the evaluation of capital adequacy and the enforcement level) of the Corporation quarterly. OSMO is also required by statute to have a full-time Director. These three statutory requirements will consume approximately \$200,000 in FY 1994, about two-thirds of the requested budget.

Certain funds are also budgeted for one-time regulatory development activities. For example, during FY 1993, FCA has developed new call report requirements for Farmer Mac. While these might be revised periodically, the intensive initial investment in this activity is completed. Similarly, the research that must be conducted to find the worst case of agricultural defaults and losses will be a one-time expense for OSMO. Developing the stress test will also require a high initial investment and then a more modest level of resources to keep it operational. Other variable costs include regulatory developments. From year-to-year, different regulations will take priority, depending on statutory deadlines as well as agency priorities and resources, but these can generally be forecast within a reasonable range of accuracy.

OSMO's FY 1994 budget is for only the known activities of monitoring and regulatory development. However, the FY 1994 budget may not be adequate to meet all the regulatory responsibilities that OSMO might face. For example, in 1991, Farmer Mac and FCA took different views of Farmer Mac's statutory authority to issue debt in order to fund the purchase of Farmer Mac guaranteed securities. Farmer Mac informed FCA that it intended to litigate that matter. Any budget that OSMO might request would normally not include costs for such non-routine activities as a protracted litigation. Similarly, the costs of any supervisory activities would only be incurred in case Farmer Mac's condition or practices were found to be unsafe or unsound. This unknown dimension of certain regulatory activities makes it difficult to specify a budget that provides OSMO with full certainty that it can carry out its responsibilities.

Furthermore, FCA would like to avoid wide budgetary swings from year to year even when the workload might reasonably demand it. FCA does not want to signal the level of risk at Farmer Mac through its OSMO budget requests. This could cause undesirable market repercussions. Farmer Mac would also appreciate some level of predictability in its assessments.

To respond to these uncertainties, FCA's Board would not be adverse to discussing ways to improve OSMO's funding. For example, a mechanism that would provide some form of contingency reserve for OSMO, perhaps funded initially by appropriations that were not obligated in a given year. Such a reserve (which could be capped at some multiple of the annual budget) would allow assessments to be relatively predictable for Farmer Mac and would avoid the need for supplemental appropriations or special assessments of Farmer Mac. Such a mechanism could serve to reinforce the independence of the OSMO regulatory function from Farmer Mac.

FCA would be pleased to meet with you further in an effort to discuss improving the funding approach to OSMO if you so desire.

#### **1992 Amendments, Section 510**

**Question:** A provision of the 1992 Amendments, Section 510, provided a clarification of the treatment of certain FCA operating expenses. Please provide the Committee with your interpretation of the impact of this provision on FCA and its budget.

**Answer:** The FCA's budget and the means by which the agency collects and spends its funds are independent from the usual appropriations process. However, for many years the agency has been subject to limitations on its expenditures contained in annual appropriations laws.

FCA obtains its funds through assessments on institutions that are deposited into the Farm Credit Administration Administrative Expense Account. FCA is required to ensure that the assessments are adequate to meet the agency's requirements including the maintenance of a necessary reserve. Prior to the 1992 amendments, the law provided that the funds in the account are not considered appropriated funds and these funds can be spent without regard to the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings) or any other law. In 1992 this section of the law was amended to provide that the exemption from Gramm-Rudman-Hollings applies only to the sequestration provisions of that law and to delete the phrase "or any other law." The impact of the amendment was to subject the agency to those provisions of Gramm-Rudman-Hollings except as they relate to sequestration.

### Average Cost Per FTE

Question: Using the figures provided in your FY 1994 Explanatory Notes, it appears that the cost per FTE of the agency has increased dramatically since 1988. Could you provide the Committee with an explanation of this and some insight as to whether this trend will continue?

Answer: Several factors have contributed to the increased average cost per FTE over the years. A significant number of FCA's 240 examiners were hired directly out of college beginning in 1986. More than three-fourths of the examiners are now commissioned and experienced, compared with just slightly more than 40 percent 4 years ago. The large number of trainee examiners hired in 1986 have gained experience and professional competence through training and on-the-job development. These examiners were hired under career-ladder position descriptions; i.e., they were hired at the GS-7 equivalent level, and many are currently at the GS-12-13-14 equivalent level. So, while we are able to carry out the examinations with fewer examiners, their cost per FTE has increased significantly due to their promotion in the career ladder.

Another factor contributing to the increase in the average FTE cost is the implementation of the FIRREA. This Act required that all Federal financial institution regulators seek comparable compensation. The agency has responded to FIRREA by targeting its staff's compensation at the average of the compensation of the other regulators. In 1991, FCA staff compensation was about 9 percent below the average of the other Federal regulators. After pay increases in FY 1992 and FY 1993, the FCA now believes its base salaries are generally comparable with those of the other Federal financial institution regulators.

Another factor has been the rate of inflation. Between 1988 and 1994, the inflation rate has averaged or is projected to average about 4 percent a year. The compounded inflationary effect is in excess of 24 percent for the period.

Now that the FCA pay system is generally comparable and the examination workforce is largely at the "Journeyman" level, the cost per FTE should increase about the same as the increases of other financial regulators.

### Revenue

Question: Please provide a schedule of all sources of revenues to FCA for 1992, 1993 and projected for 1994. Such sources may include revenue received from the system institutions, Farmer Mac, FCSIC, the National Cooperative Bank, interest earnings, and any others.

Answer: We will present a table showing the requested information. [The information follows]:

**SOURCES OF REVENUE  
FISCAL YEARS 1992, 1993 & 1994  
(DOLLARS IN THOUSANDS)**

Revenue Source:	ACTUAL 1992	BUDGET 1993	BUDGET 1994
<b>Direct Program (from Assessments for FCA Administrative Expense):</b>			
Farm Credit System	40,290	39,608	41,357
Federal Agricultural Mortgage Corporation (Farmer Mac)	247	300	326
Interest Income <sup>1</sup>	367	200	200
Other Misc Income	36	0	0
<b>Total Direct Program</b>	<b>40,940 <sup>2</sup></b>	<b>40,108</b>	<b>41,883</b>
<b>Reimbursable Program:</b>			
Farm Credit System Insurance Corporation (FCSIC)	473	520	537
National Coop. Bank & National Coop. Bank Development Corp.	115	100	110
Other	0	21	26
<b>Total Reimbursable Program</b>	<b>588</b>	<b>641</b>	<b>673</b>
<b>Total Direct &amp; Reimbursable FCA</b>	<b>41,528</b>	<b>40,749</b>	<b>42,556</b>

<sup>1</sup> Interest income reduction in FY 1992 was the result of less cash on hand and lower interest rates. The budget estimates for FY 1993 and FY 1994 assume continued low interest rates.

<sup>2</sup> \$3.5 million of this revenue was not needed for the FCA's administrative expenses in FY 1992, and these excess funds were returned to the System and Farmer Mac.

**Budget**

Question: Please provide a breakdown of divisional budgets and staffing of FCA for 1992, 1993 and projected for 1994.

Answer: The first table reflects staffing levels at the office level and the second table reflects budgets for each of the offices. [The information follows]:



## FULL-TIME EQUIVALENT LEVELS

Organizational Unit	FY 1992 ACTUAL	FY 1993 Estimate	FY 1994 Estimate
HEADQUARTERS:			
CEO & Board	11.06	13.00	13.00
Chief Operating Officer	0.30	4.00	4.00
Congressional & Public Affairs	6.78	5.20	5.00
Examination (HQ)	59.15	35.80	35.80
General Counsel	27.33	20.80	20.80
Resources Management	107.35	107.00	103.00
Regulatory Enforcement	(Note 1)	n/a	n/a
Inspector General	5.68	7.00	7.00
Secondary Market Oversight	0.13	1.00	1.00
Special Supervision & Corporate Affairs	14.61	26.00	26.00
Subtotal Headquarters	232.39	219.80	215.60
Field Examination	254.17	244.20	237.20
Per Executive Order 12839 (Note 2)		(5.00)	(Note 2)
TOTAL, HEADQUARTERS AND FIELD	486.56	459.00	452.80

Note 1. The Office of Special Supervision and Corporate Affairs (OSSCA) was created in 1992 as part of the implementation of the Riso Dempsey management study. Included in OSSCA's FTEs is 11.14 FTEs for the former Office of Regulatory Enforcement.

Note 2. Per Executive Order 12839, "Reduction of 100,000 Federal Positions", dated February 10, 1993, the FCA was requested to reduce its full-time equivalent (FTE) levels by 5.00 FTEs by the end of FY 1993. This reduction was not included in the individual office FTEs for FY 1993, but was included in FY 1994.

n/a = not applicable.

## FUNDING LEVELS (in thousands)

Organizational Unit	FY 1992 ACTUAL	FY 1993 Estimate	FY 1994 Estimate
Headquarters:			
CEO & Board	\$ 1,281	\$ 1,485	\$1,573
Chief Operating Officer	50	530	554
Congressional & Public Affairs	594	491	532
Examination (HQ)	5,269	3,941	3,987
General Counsel	2,368	2,000	2,144
Resources Management	9,829	10,183	10,610
Regulatory Enforcement	0	n/a	n/a
Inspector General	543	692	892
Secondary Market Oversight	246	300	326
Special Supervision & Corporate Affairs	1,441	2,635	2,950
Less: Interagency Obligations (Note 1)	(118)		
Subtotal Headquarters	21,503	22,257	23,568
Field Examination	17,584	17,651	18,115
Prior year De-obligations (Note 2)	(1,083)	0	0
TOTAL, HEADQUARTERS AND FIELD	38,004	39,908	41,683

Note 1. Interagency obligations represents obligations of the Office of Secondary Market Oversight for services of other FCA Offices.

Note 2. Prior year de-obligations represents unused obligations from prior years.

n/a = not applicable.

## Reimbursable Program

Question: The Budget Appendix for 1993 showed no "Reimbursable Program" for that year. The 1994 Appendix now shows a \$641,000 reimbursable program for 1993 and a \$673,000 reimbursable program for 1994. As a result, the total obligations for 1993 are projected to exceed the limits established in the Appropriations Bill. Please describe the nature of the reimbursable program and the justification for exceeding the total obligation limit. Be specific.

Answer: The FCA is reimbursed for the functions performed for the Farm Credit System Insurance Corporation (FCSIC). In addition, FCA is required to examine the National Consumer Cooperative Bank (NCCB) and the National Cooperative Bank Development Corporation (NCBDC), and these entities are required to reimburse the agency for the costs of the examinations. The annual limitation on administrative expenses applies only to the funds received from assessments of Farm Credit institutions and therefore, by

its terms, does not apply to the expenses associated with examinations of the NCCB and the NCBDC. Similarly, the limitation does not apply to expenditures that FCA makes for personnel and resources that are reimbursed by FCSIC.

The presentation of a "Reimbursable Program" as well as the "FCA Direct Program" more accurately portrays the agency budget requirements for the fiscal year, and is consistent with other Federal agencies' Budget Appendix presentation. These reimbursed expenses do not count against FCA's annual limitation. This treatment has been endorsed by the Office of Management and Budget and in an official opinion by the General Accounting Office (GAO). In an April 21, 1993 response to FCA's Inspector General, the GAO stated, "The limitation on annual obligations applies specifically to assessments collected from farm credit institutions and from the Federal Agricultural Mortgage Corporation, not to funds from other sources. Pub. L. No. 102-142, 105 Stat. 911 (1991). Indeed, to count such reimbursable receipts against the annual limit would lead to the anomalous result of FCA having to reduce otherwise budgeted and approved projects and activities."

### Unfilled Customer Orders

Question: In the equity portion of the financial condition section of FCA's materials in the Appendix, it appears that the line for "unfilled customer orders" has increased dramatically. Please provide an explanation for this.

Answer: The increase in "unfilled customer orders" represents premiums in excess of claims in the agency's Health and Life Insurance Rate Stabilization Funds. This amount could increase or decrease from period to period depending on the timing of claims paid from the funds.

### Internal and External Risks and Solutions

Question: You have indicated that your budget assumes \$200,000 to undertake an analysis of possible internal and external risks and possible solutions. Please explain this study in greater detail and whether this represents Phase I of a multi-year effort.

Answer: FCA is now conducting a review of risks facing the Farm Credit System. This review will: (a) identify and describe classes of risks affecting System institutions; (b) identify previous work, either by FCA or external groups, that could be used as a basis for assessing each risk area; (c) develop workplan options; and, (d) set priorities for further analysis. This initial phase will be completed in FY 1993. The second phase of this study will involve a more extensive analysis of the priority risks identified in Phase I which will be completed in FY 1993. To the extent possible, this risk assessment will be performed internally with the requested funds used only to obtain specialized outside expertise needed to complete this project.

Although the System has made progress in returning to financial health, the environment in which it operates is not without risks and subject to constant change. Some of these risks are relatively new to the landscape of financial regulation. The growth in off-balance sheet transactions (i.e., swaps, derivatives) pose new risks to both financial institutions and their regulators. The structure of the System we regulate is in a state of flux, and farm policy appears to be at a cross-roads. The international markets for farm commodities are rapidly changing complexion as the former Soviet Union, once a major market for farm commodities, is fading from the picture. These are just a few of the risks being identified in Phase I of the study. It is crucial that FCA identify and address the most important risks to the System prior to another potential crisis.

### Priority Regulatory Issues

Question: Please provide the committee with a list of your priority regulatory issues for FY 1994.

Answer: The following is a list of the agency's current priority regulation projects for the remainder of FY 1993 and FY 1994. They are not in order of priority.

1. **Capital, Funding and Fiscal Affairs, Loan Policies and Operations, and Funding Operations, 12 CFR Part 615**
2. **Lending Limits, Loan Policies and Operations, 12 CFR Part 614**
3. **Investments and Other Funding, Funding and Fiscal Affairs, Loan Policies and Operations, and Funding Operations, 12 CFR Part 615**
4. **General Financing Agreement, Loan Policies and Operations, 12 CFR Part 614**
5. **High Risk Assets, Accounting and Reporting Requirements, 12 CFR Part 621**
6. **Termination of Large Associations and Banks, Organization, 12 CFR Part 611**
7. **Eligibility and Scope of Financing, 12 CFR Part 613--includes Acquired Property**
8. **Financially Related Services, General Provisions, 12 CFR Part 618**
9. **Report to Investors, Disclosure to Shareholders, 12 CFR Part 620**
10. **Standards of Conduct, Personnel Administration, 12 CFR Part 612**
11. **Financial Disclosure and Conflict of Interest Reporting for Farmer Mac, 12 CFR Part (not yet determined)**
12. **Ethics, Employee Responsibilities and Conduct, 12 CFR Part 601**
13. **Distressed Borrower Notification, Loan Policies and Operations, 12 CFR Part 614**

### System Assessment

Mr. Steele, last year you testified about developing a new assessment for System institutions.

Question: Have you implemented that system? How is it different from the old system? What is it?

Answer: The regulation authorizing the new assessment system became effective on March 25, 1993. It will be implemented on October 1, 1993, the beginning of the new fiscal year. The regulation sets forth the method for assessing System institutions to cover FCA's annual administrative expenses.



The regulation approved by the FCA Board in February, 1993 was essentially the consensus agreement of the 20-member FCA Assessment Regulations Negotiated Rulemaking Committee. The Committee had representatives from each type of Farm Credit institution - small and large, financially strong and weak, and from all geographic areas. One committee member represented FCA.

Before the committee began evaluating various assessment options, it established standards against which all options were measured to determine an equitable formula. These standards called for an acceptable assessment option to be simple or easy to apply and easy to understand, flexible or adaptable to future changes, and in compliance with the law. The standards also called for the assessment option to have a high level of objectivity and not cause structural change of System institutions. In addition, the standards provided for some costs to be allocated on a basis that reflects cost of services and for other costs to be divided on a basis not related to cost of services.

To reach consensus on an equitable assessment formula, the committee reviewed more than 30 different scenarios, which tested the effects of using various factors to determine the level of assessment to be charged to institutions.

Key features of the regulation are:

- 30 percent of the assessment will be apportioned among Farm Credit institutions based on average risk-adjusted assets.
- The remaining 70 percent of the assessment also will be based on the average risk-adjusted assets of Farm Credit institutions using an eight-tier structure establishing asset-size ranges.
- All Farm Credit institutions will pay a minimum assessment of \$20,000, regardless of level of risk-adjusted assets.
- Each Farm Credit institution will be assessed and billed at the institution level.

Currently, only the Farm Credit Banks and Banks for Cooperatives are assessed and billed by FCA. Each district determined how the expenses would be divided between the FCB and the different types of associations. The old method was criticized as unfair and as not being flexible enough to adjust to recent structural changes in the System.

In developing the formula and regulation, the committee attempted to allocate some of FCA's regulatory costs on a basis that generally reflects the cost of services. The committee determined that FCA can be expected to spend more supervisory time and effort on institutions that have been identified through the examination process as having a higher level of risk than other institutions. As a result, the assessment formula requires Farm Credit institutions with a CAMEL rating of 3 to pay 20 percent more and institutions with a CAMEL rating of 4 or 5 to pay 40 percent more than institutions with a 1 or 2 rating. The FCA CAMEL rating is based on a scale of 1 to 5 in ascending order of supervisory concern, with a 5 representing the poorest, most critically deficient level of performance and the highest level of FCA concern, and a 1 representing an institution that is basically sound in every respect.

In addition, the risk-adjusted asset tiers that establish the amounts that institutions will pay with respect to 70 percent of their assessment are designed to reflect economies of scale that can affect the examination of larger institutions.

The committee's proposed formula and the final regulation also incorporate the idea that all Farm Credit institutions should pay some minimum assessment, regardless of size, to reflect a share of FCA regulatory costs and as a necessary cost of doing business as a federally chartered System institution. The committee determined that the \$20,000 minimum assessment accomplished this goal.

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## QUESTIONS SUBMITTED BY SENATOR COCHRAN

**Question:** The FY 1994 budget requests that the administrative expense limitations currently placed on the Office of General Counsel, the Office on Congressional and Public Affairs, and the Office of Secondary Market Oversight be removed. The FY 1994 budget proposes a 7.2 percent increase in expenses for the Office of General Counsel, an 8.4 percent increase in expenses for the Office of Congressional and Public Affairs, and an 8.8 percent increase in expenses for the Office of Secondary Market Oversight; the number of full-time equivalent positions for each of these offices is proposed to remain the same as the FY 1993 level.

Would you please justify the FY 1994 funding increase proposed in expenses for each of these three offices?

**Answer:** The FY 1994 increases for those offices are primarily for increased costs associated with salaries and benefits. However, the increases also provide modest funding for expenditure items such as training and supplies, where little or no funding was available in FY 1993 due to the limitation. In the case of OSMO, the budget includes funds to support an increased effort to develop a risk-based capital test. As you noted, the FTE levels remain the same as in FY 1993.

**Question:** Why not increase the limitation on the expenses of these three FCA offices to conform with the amounts proposed for FY 1994? Why are you requesting that these limitations be removed?

**Answer:** At the outset, the Board has no intention of increasing the staffing levels of these three offices in the foreseeable future. The reason we are seeking removal of the funding limitations is to ensure the agency has the flexibility to allocate its own resources, subject to an overall budget limit applicable to the agency in a way that best enables it to respond to changing circumstances.

Our appreciation of the congressional concerns, which originally resulted in the caps being placed, is evident in the modest increases that are planned.

However, we believe that placing limitations on specific offices within the agency impairs the agency's flexibility to manage its resources effectively, to respond in a timely way to potential crises, and to meet unanticipated contingencies.

**Question:** The FY 1994 explanatory notes indicate that the computer technology study recommended in the Riso-Dempsey study has been initiated and is expected to take about six months to complete. By what date do you expect this study to be completed?

**Answer:** The final report from Ogden Government Services is expected to be delivered in June 1993.

Question: The FY 1994 budget justification indicates that recommendations of this study will be implemented, as appropriate, beginning in FY 1994. What funding, if any, is included in the FY 1994 request for implementation of any information system requirements which may be recommended in this study?

Answer: The FY 1994 budget included \$100,000 for implementation of the recommendations contained in the report. Most of the report's recommendations are expected to address areas where existing agency resources might be used more effectively as opposed to significant new initiatives. The recommendations in the final report will be incorporated into our operating plans for FY 1994 and beyond.

Question: The explanatory notes indicate that the "FCA Board concurs that cost analysis for equipment purchases is a sound business practice and the agency will undertake the necessary efforts to evaluate all significant expenditures under these guidelines." Have the written procedures been issued to ensure that the cost of equipment purchases are properly evaluated? What are these procedures?

Answer: Written procedures have been drafted to ensure compliance with this recommendation and are undergoing internal review and approval. We anticipate the procedures will be issued by July 1, 1993.

Question: The explanatory notes indicate that the FY 1993 funding reduction, as well as lack of available data, will make it impossible for the Office of Secondary Market Oversight to carry out its statutory mandate to do a stress study and write regulations implementing capital standards by the December 13, 1993 deadline. The FY 1994 request proposes an 8.8 percent increase in expenses for this office; however, no additional full-time equivalent positions are requested. Will this provide adequate staffing for the Office to do the stress study and required regulations? What is being done to obtain the data needed for this study?

Answer: The Office of Secondary Market Oversight (OSMO) plans to use FCA staff as well as services of outside vendors rather than hire additional staff during FY 1994. The Board believes this approach is preferable because at its current state of development, the Office needs the part-time services of many specialists--such as examiners, attorneys, financial analysts, and policy analysts--to accomplish its responsibilities. For example, the analysis involved in developing a stress test will likely require the skills of economists, financial analysts, and computer programmers. These skills will be heavily in demand to develop the stress test but will not be needed intensely after the stress test is implemented. A part of the FY 1994 OSMO budget includes funds to support an increased effort to develop the risk-based capital test. The ultimate cost of such a test will depend on the cost to develop historical loss and default data and OSMO's ability to use/modify stress tests that might be developed by other regulators, such as HUD.

OSMO awarded a contract in September 1992 to the University of Illinois to research the availability of data on historical agricultural defaults and losses. OSMO has obtained from the Texas Farm Credit Bank historical loan records of the quality needed to measure historical defaults and losses. OSMO is still seeking data from other sources, particularly within the Farm Credit System. The lack of data has been a difficult and time-consuming problem to solve. It would be premature for FCA to report that it can obtain data that will satisfy the statutory requirements of the stress test. OSMO has been working diligently within the limits of its resources toward that goal.

While the risk-based capital test is needed eventually, it is not critical at this stage in Farmer Mac's development. Farmer Mac's first challenge is to reach a sufficient business

volume to report positive income. To date, that challenge has not been successfully met. The risk-based capital stress test is tied to credit and interest-rate risk of Farmer Mac's business. For this reason, FCA believes the capital stress test will be more useful as a regulatory tool after Farmer Mac has a year of sufficient business to generate net income. Because of this, as well as the fact that the statutory deadlines cannot be met under any circumstances, along with the previous concern that Farmer Mac assessments appear excessive, FCA has proposed a modest budget increase for OSMO. FCA would support revising the due date for the stress test to a point in time after Farmer Mac has positive income.

#### SUBCOMMITTEE RECESS

Senator BUMPERS. Our next hearing will be Thursday, May 20, that is the day after tomorrow, at 2 p.m., in the same room, when we will hear from the Farmer's Home Administration, the Rural Development Administration, the Federal Crop Insurance Corporation, and the Rural Electrification Administration. We stand in recess until that time.

[Whereupon, at 12:30 p.m., Tuesday, May 18, the subcommittee was recessed, to reconvene at 2:07 p.m., Thursday, May 20.]



# **AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1994**

**THURSDAY, MAY 20, 1993**

**U.S. SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,  
Washington, DC.**

The subcommittee met at 2:07 p.m., in room SD-138, Dirksen Senate Office Building, Hon. Dale Bumpers (chairman) presiding.  
Present: Senators Bumpers, Harkin, Kerrey, Cochran, and Gorton.

Also present: Senator Stevens.

## **DEPARTMENT OF AGRICULTURE**

**STATEMENT OF BOB NASH, UNDER SECRETARY, SMALL COMMUNITY  
AND RURAL DEVELOPMENT**

**ACCOMPANIED BY STEPHEN DEWHURST, BUDGET OFFICER**

## **FARMERS HOME ADMINISTRATION**

**STATEMENT OF SHARRON LONGINO, ACTING ADMINISTRATOR**

## **FEDERAL CROP INSURANCE CORPORATION**

**STATEMENT OF KATHLEEN CONNELLY, ACTING MANAGER**

## **RURAL ELECTRIFICATION ADMINISTRATION**

**STATEMENT OF JAMES HUFF, ADMINISTRATOR**

## **RURAL DEVELOPMENT ADMINISTRATION**

**STATEMENT OF L. GLENN BENNETT, ACTING ADMINISTRATOR**

## **OPENING REMARKS**

Senator BUMPERS. Today we continue our hearings on the fiscal year 1994 budget for Agriculture, Rural Development, and Related Agencies. We will review the budgets for the Farmers Home Administration, the Federal Crop Insurance Corporation, the Rural Electrification Administration, and the Rural Development Administration.

Our witnesses are Bob Nash, a truly great American from Arkansas, Under Secretary for Small Community and Rural Development; Sharron Longino, Acting Administrator, Farmers Home Administration; Kathleen Connelly, Acting Manager, Federal Crop In-

insurance Corporation; James Huff, Administrator, REA; Glenn Bennett, Acting Administration, Rural Development Administration; and Stephen Dewhurst, Budget Officer for the Department.

Secretary Nash, it is a real pleasure to have you before us, somebody, anybody who is not just acting. [Laughter.]

Each of the agencies you oversee has a major impact on rural America. Farmers and other rural Americans are keenly interested in the programs administered by these agencies and the budgets for operating them. We simply never have enough funds to meet the demand for farm loans, rural housing loans and grants, rural electric and telephone loans, water and sewer loans and grants, and rural development loans and grants. Therefore, it becomes vitally important that the programs be administered efficiently, fairly, and timely.

Having said that, I will leave the details of the budget proposals for you to summarize. We have statements from each of the heads of the agencies, as well as the Under Secretary. They will be made a part of the record in full. Secretary Nash, I will ask you to make your oral statement first, after which we will take questions from the subcommittee for each of the agencies. It is a genuine pleasure to have you here.

#### STATEMENT OF BOB NASH

Mr. NASH. Thank you very much, Mr. Chairman. It is an honor and a pleasure to be here before the committee, especially before your committee.

Mr. Chairman and members of the committee, I want to present today to you the 1994 budgets for the Rural Development Administration, Farmers Home Administration, Rural Electrification Administration, and the Federal Crop Insurance Corporation.

The presentation of the budget is a little different this year in that it includes the establishment of the Farm Service Agency. As you know, the FSA, as we now call it, is a consolidation of the Agricultural Stabilization and Conservation Service, Soil Conservation Service, and the Farmers Home Administration. The Farmers Home programs and administrative expenses are included in the FSA request.

Mr. Chairman, the President's 1994 proposals include long-term investments in high-priority programs, so my comments on the budgets for these agencies will begin with those increases.

#### INVESTMENT PROPOSALS

First, the investment proposals. The budget includes the funding increases reflected in the President's rural development initiative, the purpose of which is to increase employment opportunities and improve the quality of life for residents of rural areas. It will produce new jobs in the construction trades and lay the foundation for new economic growth by providing the infrastructure investment. I see this office as being the advocate for rural people and rural places in this country.

The investment proposal includes an additional \$2 billion in 1994 and \$11.3 billion for the period 1994 to 1997 for community and

industrial development, rural housing, and enhanced telecommunications.

Specifically included in the request for 1994 are \$230 million for water and waste disposal loans, \$140 million for grants; \$31 million for rural development grants, \$140 million for intermediary lending where we make loans to nonprofits who, in turn, make loans to small businesses; \$200 million for business and industry loan guarantees, a regular ongoing program; \$300 million for community facilities loans, \$50 million for enhanced telecommunications, \$600 million for direct and guaranteed single-family housing loans, \$75 million for a new housing voucher program, and \$75 million for rental assistance payments to enable us to meet commitments to renew expiring rental assistance agreements with landlords.

Let me now move to the Rural Development Administration very quickly. Including the proposals for the investment package, the budget requests \$876 million for the Rural Development Administration's water and waste disposal program, \$36 million for water and waste disposal loan guarantees, and \$541 million for water and waste disposal grants.

As the committee is well aware, small communities and rural areas rank very high in terms of noncompliance with Federal clean water standards. The most recent Environmental Protection Agency needs survey estimates a total cost of \$42 billion is necessary to bring rural communities into compliance with existing waste water treatment standards and between \$5 and \$7 billion to meet the drinking water standards. A significant portion of the latter is needed for rural areas.

For so-called community facility loans, the budget requests \$389 million in direct loans and \$75 million in loan guarantees. The priority for these funds is health related facilities and fire and rescue equipment. The majority of the applications received for guaranteed loans have been for hospitals and health clinics. We expect this trend to continue as rural areas make every attempt to improve the quality of health related services for rural residents.

The budget requests a total of \$300 million for business and industry loan guarantees. This request represents a very efficient means of increasing private sector employment in rural areas due to the fact that the cost to the Government is so low. At present there is a backlog of over \$200 million in applications for this type of assistance.

The budget also requests \$175 million for intermediary relending and \$51 million for the rural development grant program.

The administrative expenses associated proposes a level of \$37.7 million and a staff-year total of 402. RDA will continue to operate through the national and regional office staffs and utilize the Farmers Home staff in the district offices to administer these programs at the local level. Funding for the district offices staff is included in the budget request for the Farm Services Agency.

#### RURAL HOUSING PROGRAMS

Now, rural housing programs. For rural housing programs, the administration is requesting \$2.7 billion for housing loans and \$413 million for grants and other assistance payments.



The 1994 request, including the investment proposals, is significantly higher than the levels enacted in 1993. The budget requests will provide assistance to about 108,000 housing units, which is a 27-percent increase over the number assisted through the appropriated levels for 1993.

In addition to the traditional housing programs, we are requesting \$75 million to implement a new rural housing voucher authority provided by the 1992 Housing Act amendments. We think this program is critical for areas that have a sufficient supply of adequate housing but no means to assist low-income residents in affording those units. A voucher program adds a much-needed dimension to the diversity of housing assistance available through the Department of Agriculture.

#### FARM PROGRAMS

The farm programs. The budget request for farm programs continues the policy of shifting from a direct to a guaranteed farm lending and targeting direct lending to young and beginning farmers. A stronger emphasis on guaranteed loans, combined with interest assistance on some loans, stimulates lending opportunities for rural banks.

For operating credit, the budget requests a total of \$4.8 billion: \$3.6 billion for unsubsidized guaranteed loans, \$426 million for subsidized guaranteed loans, and \$796 million for direct loans. For ownership loans, we request \$643 million. In addition, the budget requests \$10 million in grant funds to expand our outreach and education efforts for farm borrowers. This authority was provided by the FACT Act of 1990 and has been funded from appropriations for salaries and expenses at a \$2 million level for the past few years. In addition, we are requesting \$121 million for emergency loans. Based on our experience of the last few years, this should be sufficient funding to respond to natural disasters.

#### REA PROGRAMS

Moving now to the Rural Electrification Administration. Mr. Chairman, the 1994 budget for the REA proposes to maintain the program levels enacted for 1993, but proposes to increase the interest rate on direct electric and telephone loans to the cost of Treasury borrowing. The budget also provides \$25 million in direct electric loans at the 5-percent interest rate for those borrowers experiencing financial hardship.

The Rural Telephone Bank loans would also be made at the cost of Treasury borrowing. As I previously stated, the budget proposes, as part of the investment package, \$50 million for enhanced telecommunications. Of the total, \$25 million will be available at 5-percent interest for borrowers experiencing financial hardship, and \$25 million will be available through the Rural Telephone Bank. These funds will be targeted to distance learning and medical link projects.

The budget also includes \$13 million for rural economic development loans, \$5 million for rural economic development grants, and \$5 million for grants for the Distance Learning and Medical Link Program.



For REA administrative expenses, we are requesting \$38.7 million, a slight increase over the 1993 level.

#### FEDERAL CROP INSURANCE

**Federal Crop Insurance.** For crop insurance, the 1994 budget reflects a phase-in of area coverage, as well as a significant restructuring of individual coverage and a substantial reduction in payments for program delivery. Individual coverage would be continued without significant change for those county crops that constitute a book of business with a loss ratio of 1.1 based upon the loss experience as calculated from 1982 to 1991. By 1995 the loss ratio for this business would be reduced to 1.0, which is generally regarded as a measure of an actuarially sound program.

Individual coverage would be restructured for about 5,100 county crop programs mostly by reducing yield guarantees. Each of these programs has an accumulated loss ratio over the 1982 to 1991 period exceeding 2.19. In each case coverage would be restructured to provide plans of insurance that may be more actuarially sound.

In about 700 counties, we would offer area coverage which we refer to as group risk plan, or GRP. This coverage provides payments to insured producers when the yield in their county falls below a trigger level. Producers select the trigger levels, as well as the percent of yield and price on which their payment would be based, thus providing them an opportunity to tailor the coverage to their own individual needs. However, the payments would be made without regard to an individual's production experience.

GRP is being pilot tested this year for soybeans. For 1994, we plan to extend coverage to additional counties for soybeans and to offer it for the first time for corn, wheat, and grain sorghum. We are also looking into the possibility of offering it on a limited basis for cotton, peanuts, and sunflowers.

For 1994, GRP would be offered as an alternative rather than the only plan available. Individual coverage, although probably at reduced coverage levels, would remain available in all counties where the GRP would be offered. By 1998, however, GRP would be the only plan available. This approach is consistent with the President's proposal for reforming the crop insurance program while providing more time for developing a new data base that is necessary to implement a new program.

The proposal is expected to save about \$1.65 billion over the next 5 years, of which about \$1 billion is mandatory savings due to a reduction in losses, and about \$650 million is discretionary savings in delivery costs. For 1994 there would be \$105 million in discretionary savings which would be achieved by a reduction of about 25 to 30 percent in payments made to insurance companies for delivery and 15 to 25 percent in overhead for FCIC.

Mr. Chairman, I appreciate the opportunity. This concludes my opening statement. I and my other staff members would be happy to answer questions that you might have about my presentation or any other questions you might have.

## PREPARED STATEMENTS

Senator BUMPERS. Thank you very much, Mr. Secretary. As I mentioned earlier, we have your complete statement and it will be made part of the record along with the statements of Ms. Longino, Ms. Connelly, Mr. Huff, and Mr. Bennett.

[The statements follow:]

## STATEMENT OF BOB NASH

Mr. Chairman, and Members of the Committee, it is a pleasure to be here today to present to you the fiscal year 1994 Budgets of the Rural Development Administration, Farmers Home Administration, Rural Electrification Administration, and the Federal Crop Insurance Corporation.

The presentation of the budget is a little different this year in that it includes the establishment of the Farm Service Agency (FSA). As you know, the FSA is a consolidation of the Agricultural Stabilization and Conservation Service. (ASCS), Soil Conservation Service (SCS), and the Farmers Home Administration (FmHA). The FmHA programs and administrative expenses are included in the request for the FSA.

Mr. Chairman, the President's 1994 proposals include long-term investments in high priority programs so my comments on the budgets for these agencies will begin with those increases.

## INVESTMENT INCREASES

The budget includes the funding increases reflected in the President's Rural Development Initiative, the purpose of which is to increase employment opportunities and improve the quality of life for residents of rural areas. It will produce new jobs in the construction trades and lay the foundation for new economic growth by providing the infrastructure investment.

The Investment Proposal includes an additional \$2.0 billion in 1994 and \$11.3 billion for the period 1994-1997 for community and industrial development, rural housing, and enhanced telecommunications.

Specifically, the increases requested for 1994 are:

- \$230 million for water and waste disposal loans and \$140 million for grants,
- \$31 million for Rural Development Grants,
- \$140 million for Intermediary Relending,
- \$200 million for business and industry loan guarantees,
- \$300 million for community facilities loans,
- \$50 million for enhanced telecommunications,
- \$600 million for direct and guaranteed single-family housing loans,
- \$75 million for a rural housing voucher program, and
- \$75 million for rental assistance payments to enable us to meet our commitments to renew expiring rental assistance agreements.

## RURAL DEVELOPMENT ADMINISTRATION

Including the proposals for the Investment Package, the budget requests \$876 million for RDA's Water and Waste Disposal direct loan program, \$36 million for Water and Waste Disposal loan guarantees and \$541 million for Water and Waste Disposal grants.

As the Committee is aware, small communities and rural areas rank highest in terms of noncompliance with Federal Clean Water Standards. The most recent Environmental Protection Agency NEEDS survey estimates a total cost of \$42 billion is necessary to bring rural communities into compliance with existing waste water treatment standards and between \$5 billion and \$7 billion to meet the Drinking Water Standards. A significant portion of the latter is needed for rural areas.

For Community Facility loans, the budget requests \$389 million in direct loans, and \$75 million in loan guarantees. The priority for these funds is health related facilities and fire and rescue equipment. The majority of the applications received for guaranteed loans has been for hospitals and health clinics. We expect this trend to continue as rural areas make every attempt to improve the quality of health related services for rural residents.

The budget requests a total of \$300 million for business and industry loan guarantees. This requests represents a very efficient means of increasing private sector employment in rural areas due to the fact that the cost to the government is so low.

At the present time there is a backlog of about \$200 million in applications for this assistance.

The budget also requests \$175 million for the Intermediary Relending program and \$51 million for the Rural Development Grant Program.

For administrative expenses the budget proposes a level of \$37.7 million and a staff year total of 402. RDA will continue to operate through the National and Regional Office staffs and utilize the FmHA staff in the state and district offices to administer the programs at the local level. Funding for these FmHA offices is included in the budget request for the Farm Services Agency.

#### RURAL HOUSING PROGRAMS

For Rural Housing programs the Administration is requesting a budget of \$2.7 billion for housing loans and \$413 million for grants and other payments.

The 1994 request, including the investment proposals, is significantly higher than the levels enacted in 1993. The budget requests will provide assistance to about 108,000 housing units, a 27 percent increase over the number assisted through the appropriated levels for 1993.

In addition to the traditional housing programs, we are requesting \$75 million to implement the Rural Housing Voucher authority provided by the 1992 Housing Act Amendments. We think this program is critical for areas that have a sufficient supply of adequate housing, but no means to assist low-income families in affording the units. A voucher program adds a much needed dimension to the diversity of housing assistance available through USDA.

#### FARM PROGRAMS

The budget request for the Farm programs continues the policy of shifting from direct to guaranteed farm lending and targeting direct lending to young and beginning farmers. A stronger emphasis on guaranteed loans combined with interest assistance on some loans, stimulates lending opportunities for rural banks.

For operating credit, the budget requests a total of \$4.8 billion: \$3.6 billion for unsubsidized guaranteed loans, \$426 million for subsidized guaranteed loans; and \$796 million for direct loans. For ownership loans we request \$643 million. In addition, the budget requests \$10 million in grant funds to expand our outreach and education efforts for farm borrowers. This authority was provided by the FACT ACT of 1990 and has been funded at \$2 million annually for the past few years. In addition, We are requesting \$121 million for emergency loans. Based on our experience of the past few years, this should be sufficient funding to respond to natural disasters.

#### RURAL ELECTRIFICATION ADMINISTRATION

Mr. Chairman, the 1994 budget for the REA proposes to maintain the program levels enacted for 1993, but proposes to increase the interest rate on direct electric and telephone loans to the cost of Treasury borrowing. The budget also provides \$25 million in direct electric loans at the 5 percent interest rate for those borrowers experiencing financial hardship.

Rural Telephone Bank loans would also be made at the cost of Treasury borrowing. As I previously stated, the budget proposes, as part of the Investment Package, \$50 million of enhanced telecommunications, \$25 million of this will be available at the 5 percent interest rate for borrowers experiencing financial hardship and \$25 million will be available through the RTB. These funds will be targeted to Distance Learning and Medical Link type projects.

The budget also includes \$13 million for Economic Development loans, \$5 million for Economic Development grants, and \$5 million for grants for the Distance Learning and Medical Link program.

For REA administrative expenses, the budget requests \$38.7 million, a slight increase over the 1993 level.

#### FEDERAL CROP INSURANCE CORPORATION

For Crop Insurance, the 1994 budget reflects a phase-in of area coverage, as well as a significant restructuring of individual coverage and substantial reductions in payments for program delivery. Individual coverage would be continued, without significant change for those county crop programs that constitute a "Book of Business" with a loss ratio of 1.1 based on loss experience from 1982-1991. By 1995, the loss ratio for this business would be reduced to 1.0, which is generally regarded as a measure of an "actuarially sound" program.



Individual coverage would be restructured for about 5,100 county crop programs, mostly by reducing yield guarantees. Each of these programs has an accumulated loss ratio over the 1982-1991 period exceeding 2.19. In each case coverage would be restructured to provide plans of insurance that may be more actuarially sound.

In about 700 counties, we would offer area coverage, which we refer to as the Group Risk Plan (GRP). This coverage provides for payments to insured producers when the yield in their county falls below a "Trigger" level. Producers select the "Trigger" level as well as the percent of yield and price on which their payment would be based, thus providing them an opportunity to tailor the coverage to their individual needs. However, the payments would be made without regard to an individual producer's production experience.

GRP is being pilot tested this year for soybeans. For 1994, we plan to extend this coverage to additional counties for soybeans and offer it for the first time for corn, wheat, and grain sorghum. We are also looking into the possibility of offering it on a limited basis for cotton, peanuts, and sunflowers.

For 1994, GRP would be offered as an alternative, rather than the only plan available. Individual coverage although probably at reduced coverage levels, would remain available in all counties where GRP would be offered. By 1998, however, GRP would be the only plan available. This approach is consistent with the President's proposal for reforming the crop insurance program, while it provides more time for developing a new data base that is necessary to implement the program.

The proposal is expected to save about \$1.65 billion over the next five years, of which about \$1.0 billion is mandatory savings due to a reduction in losses, and about \$650 million is discretionary savings in delivery costs. For 1994, there would be \$105 million in discretionary savings, which would be achieved by a reduction of about 25 to 30 percent in payments made to reinsurance companies for delivery costs and 15 to 25 percent in FCIC's overhead expenses.

Mr. Chairman, that concludes my opening statement. We will be happy to answer any questions that you and other Members of the Committee might have.

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#### STATEMENT OF SHARRON S. LONGINO

Mr. Chairman, and Committee members, I am pleased to present the Farmers Home Administration fiscal year 1994 appropriation request.

FmHA continues to respond to rural families, just as we did in the troubled 1930's. Then, our loans and other assistance gave hope to hard-working rural people, allowing them to stay on their farms. Shortly after World War II, our loans began making it possible for thousands of rural families to own their homes. Later, Congress gave us additional tools to respond to water, sewer, community facility, and business development needs of rural areas. Those programs are now in the care of the Rural Development Administration.

We still find many rural areas caught in poverty. In response, Farmers Home will strengthen its mission of providing economic empowerment through a compassionate, supervised lending program. Our pledge to you is to manage the resources you appropriate to us by putting people first. The Secretary early last month demonstrated his concern when he suspended farm foreclosures not already in court in order to give borrowers a chance to ask for a review of their case.

Our pledge to taxpayers is to administer our programs efficiently and to make sure our borrowers are treated fairly and equitably in every way. The State, district, and county structure of FmHA and the labors of hard-working FmHA employees belong to the American people. As we move to the creation of a new Farm Service Agency we will make every effort, I assure you, to handle these assets with care. The organization and structure of the Farm Service Agency will serve customers and taxpayers. We know that service to farm and housing customers will improve and efficiencies brought by consolidation will reduce operating costs—a benefit for all taxpayers.

#### CURRENT PROGRAM STATUS

Farmers Home ended fiscal year 1992 with almost one million borrowers. Total outstanding direct and guaranteed loans were \$51 billion. Farm loans accounted for \$21 billion or 41 percent of the Farmers Home loan portfolio, including approximately \$5 billion in guaranteed loans. We made \$2.3 billion in farm loans during fiscal year 1992, and guaranteed loans were 68 percent of this total. This marks the sixth consecutive year in which guaranteed farm loans have accounted for more than half the total dollars loaned. We are continuing to implement the Agricultural Credit Act of 1987 to assist our financially distressed farm borrowers who seek to



have their debt restructured. We will make every effort to help as many of the borrowers as possible stay in business and bring their loans current.

In fiscal year 1992, we made nearly \$2.6 billion in loans to finance improved housing for rural families. Over \$1.2 billion was for subsidized single family loans for low-income people in rural areas, while \$574 million was for multi-family housing loans to assist persons with very low, low and moderate incomes and for those age 62 and older in small communities. We ended fiscal 1992 with \$30 billion in rural housing loans outstanding to over 714,000 borrowers, which is 59 percent of our loan portfolio.

#### GUARANTEED LOANS

The FmHA program budget request for fiscal year 1994 is in harmony with the Administration's belief that Government is a partner with the private sector working for growth. Nowhere is this partnership for development clearer than in the role of guaranteed loans in our fiscal year 1994 request. Everyone gains through guarantees. Because of government guarantees, private lenders assist borrowers who otherwise might be considered not creditworthy. Because private lenders service the loans, FmHA, while carefully monitoring the guarantee process, is freed up to make and service its direct loans. Recently, we have been able to add interest assistance to guaranteed farm loans, qualifying some borrowers for private credit for the first time and allowing other borrowers to move from direct to private sector loans. In line with this trend toward guarantees, we are proposing a slight reduction in direct farm operating loans in favor of subsidized guaranteed operating loans.

The fiscal year 1994 budget calls for more guaranteed single family housing loans that will meet a ready demand. This program is successful from our standpoint and is well received by private lenders.

#### FARM PROGRAMS

Supervised direct farm lending programs show how government can empower people who are left out of private credit markets because they are considered to be too great a risk. Subsidized credit extended by FmHA helps these farm families to become productive members of their communities. Our credit programs are a cost-effective option for government because most of the program funding extended to borrowers is ultimately repaid. The 1994 budget request for the cost of operating loans is \$162 million, which will support a loan level of \$4.8 billion. Of this amount, the loan cost request for guaranteed operating loans is \$69 million, which will support a loan level of \$4 billion, consisting of \$3.6 billion in guarantees without interest assistance, and \$426 million in interest-assisted guarantees. The loan cost request for direct operating loans is \$94 million which will support a loan level of \$796 million.

The 1994 budget request for the cost of farm ownership loans is \$35 million, which will support a loan level of \$643 million. This includes \$564 million in farm ownership guarantees without interest assistance. The \$79 million in direct ownership loans will be targeted to beginning farmers and socially disadvantaged applicants.

In addition, the Administration is requesting funding for the first time in the amount of \$10 million for grants to community based organizations and to colleges to reach out and assist socially disadvantaged farmers to own and operate farms. Minority farmers, women farmers, or beginning farmers should not feel that FmHA has a deaf ear to their hopes and plans.

Also, Farmers Home is hard at work gearing up for the new program for beginning farmers and ranchers passed by the Congress at the end of your last session. Qualifying beginning farmers will be eligible for down payment, ownership, and operating loans. In addition, the law reserves 55 percent of direct farm ownership loans, 25 percent of farm ownership guarantees, and 30 percent of direct operating loans for beginning farmers in fiscal year 1994. Regulations have been developed for the act's provision for simplified applications for guaranteed loans of \$50,000 or less and for the certified lenders program. Regulations for the remaining provisions of the act have been drafted and are in the Agency clearance process.

Loans for sale of inventory property in 1994 are estimated at \$149 million, a substantial increase over the current appropriation, reflecting the major effort we will make in fiscal year 1994 to make inventory properties available to socially disadvantaged, young, and beginning farmers.

The program level request for emergency loans of \$121 million should be adequate for expected demand. Demand in 1992 was \$75 million.

## HOUSING PROGRAMS

Our single family housing credit programs empower thousands of rural families by giving them a chance to own modest homes and build equity, just like their neighbors who have access to private lending. The people served by our Agency, even though they are considered the highest credit risk, pay their bills. Borrowers are able to experience the pride of home ownership.

The typical family being served through the direct single family housing program has an annual income of about \$15,900. Interest rates for these loans can be subsidized to as low as one percent and the average interest rate for subsidized loans in our portfolio is about 3.5 percent. Our request for the cost of direct and guaranteed single family housing loans is \$386 million, which will support a \$932 million increase in loan program level, totalling \$2.6 billion. Of that amount, \$1.9 billion will be available for direct loans, and \$682 million for guaranteed loans for moderate-income families who can afford to pay market interest rates but require a guarantee to obtain private sector credit.

Our repair loans and grants help low-income people, particularly the elderly, fix their dwellings so that they are safe, sanitary, and weather-tight. Even in 1993, we are still helping people install indoor plumbing for the first time in their lives. For a cost of \$16 million, we will provide \$42 million in housing repair loans. Our housing repair grant request is \$31 million for 1994.

For those whose incomes cannot support repayment of a housing purchase, we finance the construction of multi-family housing and provide rental assistance to tenants. Eighty-five percent of those served by the rental housing program have incomes below fifty percent of the area median. Our request for the cost of rental housing loans is \$314 million, which will support a loan level of \$547 million, providing about 13,280 families with rental housing. Our request for the rental assistance program, which makes rural rental housing affordable, is \$422 million. We are asking for changes in appropriation language to give us more flexibility in allocating between renewal of expiring rental assistance contracts and servicing needs, and rental assistance provided for new construction. This flexibility would allow us to adapt to changes in the demand for new construction as well as the number of renewals and additional units of rental assistance required to keep existing projects viable and prevent tenants from being evicted.

In our portfolio alone, we have 80,000 families paying more than 30 percent of their incomes for rent and 20,000 vacant units. For example, in Friars Point, Mississippi, 30 applicants are waiting for 10 vacancies and in Rosedale, Mississippi, one apartment complex has 25 families on a waiting list for 6 vacancies. Without rental assistance, none of the families would be able to move in and the units would remain vacant, a loss to the community and to the government. In addition, several of the 10 existing tenants in Rosedale are paying up to 75 percent of their income in rent, far above the 30 percent that would be possible under rental assistance.

This year we are requesting \$75 million for housing vouchers for use in communities where an adequate supply of rental houses or apartments are available. This is a modest request that would assist about 3,750 families. We have information that demonstrates a ready demand for voucher assistance. In addition, because vouchers could be used in FmHA rental housing, they will help relieve some of the rent burden I have just discussed.

Under Secretary Espy's direction, we are already at work to make existing appropriations serve more people. For example, in response to single family housing demand, we moved up third and fourth quarter apportionments so that funds would be available as peak construction times arrive.

Also, we are increasing by \$10 million the amount of Section 502 single family housing funds that we are directing for self-help housing. Since 1971, about 20,000 homes have been built by groups of six or more families working together with a construction supervisor provided by a Farmers Home grant. Low-income families average 1,000 hours in sweat equity while performing 65 percent or more of the labor required to build their homes. The self-help approach lowers the final cost of the house, making it a bargain for the owner and for the government. Self-help borrowers gain tremendous pride in their achievement which is reflected in a delinquency rate one to four percent less than regular single family housing borrowers. The \$10 million, as a match to \$5 million contributed by States from their single family allocation, will make it possible for an additional 1,000 people to move into decent housing.

Finally, we plan to make some of our inventory housing available to public housing authorities and community based nonprofit groups for rent, with an option to purchase, to needy rural people. This means the government instead of spending

money to care for empty houses will earn some money while placing families in decent homes.

#### INVESTMENT BUDGET

The fiscal year 1994 housing requests just described include amounts that are part of the President's investment package. The FmHA investment in rural community infrastructure is targeted to new housing construction and housing repairs. The additional funding will enhance construction opportunities and skills of current and future workers, leading to higher-wage jobs, and will expand rural America's capacity to produce.

#### ADMINISTRATIVE EXPENSES

The Salaries and Expenses to administer our programs are budgeted within the request of the Farm Service Agency. In order to reach our program goals, we will need highly-motivated, careful work from current FmHA employees, superb cooperation from private lenders, and an automation system that is fast, accurate, thorough, and flexible. We believe that USDA reorganization, including creation of the new Farm Service Agency will enable us to achieve these goals.

It has been my privilege to present the first Clinton Administration budget request for the Farmers Home Administration. We look forward to contributing our share to the economic empowerment of rural America. We will make sure that funds you appropriate to our care reach the people you intend to help. We are proud of our borrowers and of their payment record, and we need to make sure that FmHA does everything we can so that they can succeed, as farmers and as homeowners. We must operate an agency that is lean, efficient, and, most importantly, customer friendly. We promise to taxpayers that we will provide cost-effective programs that help stimulate and stabilize the rural economy. By working in partnership, we can help realize the vision of an economically and socially dynamic rural America.

Thank you. I will be happy to answer questions you might have.

#### STATEMENT OF LOUIS G. BENNETT

Mr. Chairman, and members of the Committee, I am pleased to present the 1994 budget for the Rural Development Administration (ROA).

RDA's mission is to improve the quality of life in rural America by financing community facilities and businesses, providing technical assistance, and working with state and local governments to create more effective strategies for rural development. RDA, which began operations from the base of programs transferred to it from the Farmers Home Administration, will help meet this need by focusing its programs in several priority areas: helping state and local governments to build new industries to supplement rural America's traditional strengths; developing the capacity for high-value marketing to bring higher returns to rural producers and workers; and providing community facilities and services that are safe, affordable, and that provide a basis for future rural growth.

RDA's Programs are managed through seven Regional Offices located in rural America with implementation in the field conducted by FmHA staff located at the State and District Offices.

#### PROGRAM STATUS AND HISTORY

The Rural Development Administration ended fiscal year 1992 with approximately 16,700 loans outstanding. The loan portfolio for direct and guaranteed loans totalled \$5.8 billion. Historically, RDA has used virtually all the funds that have been appropriated to it.

As of September 30, 1992, 33,760 Water and Waste Disposal loans have been made since the inception of the program for \$11.6 billion, including \$5.3 million in guaranteed Water and Waste Disposal loans.

Since its inception, 6,587 Community Facilities loans have been obligated, totaling \$2.9 billion, including \$64 million for guaranteed Community Facility loans.

Since 1974, 7,702 Business and Industry loans have been made, totalling \$6.4 billion.

#### INVESTMENT BUDGET

The budget request includes the President's Rural Development Initiative for long-term investment for rural development. The additional Water and Waste Disposal loan and grant funding will provide increased assistance to rural communities



to meet compliance with such standards as the Federal Clean Water Act environmental standards. Many rural communities are unable to meet these standards without Federal assistance. The investment initiative will provide additional funding for direct and guaranteed Community Facility loans for construction of rural health care facilities, fire stations and equipment, and other vital facilities. Guaranteed Business and Industry loans and Rural Business Enterprise grants will assist rural businesses in securing start-up capital and financing for expansion, creating jobs and helping diversify the rural economy. Increases for the Intermediary Relending program will be devoted to small businesses, including "micro-enterprises."

The investment proposal will upgrade infrastructure, stimulate rural economic development, improve the quality of rural life, and increase employment opportunities in rural areas.

#### FISCAL 1994 BUDGET REQUEST

Rural America continues to face many pressing challenges in providing needed rural public services and facilities and improving its economy. RDA is prepared to assist rural America in meeting these challenges.

RDA programs bring enhanced public services and expanded employment opportunities to rural citizens across America. Rural communities and businesses face the continuing need to upgrade their ability to meet changing environmental standards, provide effective public services, and meet the challenges of economic change. As a consequence, the demand for RDA's programs continues to be strong. The policy and investment budgets we are presenting reflect our commitment to respond effectively to those demands.

#### WATER AND WASTE DISPOSAL PROGRAMS

RDA Water and Waste Disposal programs help small, rural communities provide basic human amenities, alleviate health hazards, and promote the orderly growth of rural areas. RDA assists by providing both funding and technical assistance for water and waste disposal and for solid waste management. RDA loans and grants for rural water supply and wastewater disposal projects are a principal national source of funding for this purpose. As of March 12, 1993, RDA had on hand 1,279 loan preapplications and applications totalling \$1.3 billion and 702 preapplications and applications totalling \$589.1 million for grants. In addition, we had 56 applications on hand, totalling \$7.3 million for solid waste management grants, and 19 applications totalling \$4.0 million for emergency community water assistance grants.

RDA's programs help small, low income rural communities meet Federal and state mandated service standards, including the Safe Drinking Water Act, the Clean Water Act, and EPA's Subtitle D regulations pertaining to solid waste disposal. EPA estimates that \$42.2 billion will be needed by the year 2010 to bring rural wastewater treatment facilities into compliance with the Clean Water Act. Estimates by EPA, the American Water Works Association, the Congressional Budget Office, and the National Council on Public Works Improvement estimate the need for national investments in public water supply in the range of \$4.5 billion to \$6.3 billion annually during the next twenty years. The exact rural portion of this total is not known, but is considerable.

The President's budget for 1994 includes \$876.4 million in direct Water and Waste Disposal Loans, an increase of \$276.4 million over the amount available in 1993. The request for loans is accompanied by a request for \$540.5 million in Water and Waste Disposal Grants, of which \$25 million is directed at benefiting the colonias along the U.S.-Mexican border. The President's budget also includes \$10.3 million for Emergency Community Water Assistance Grants and \$3.1 million for Solid Waste Management Grants.

#### COMMUNITY FACILITIES PROGRAMS

RDA Community Facility programs assist rural communities to modernize their public infrastructure in such areas as rural health care, fire stations and equipment, schools, libraries, and other facilities, enabling them to maintain and enhance their ability to provide high quality public services, and positioning them to develop their economic bases. These programs continue to be in high demand by rural communities. As of March 12, 1993, RDA had on hand 262 preapplications and applications, totalling \$207.1 million, for direct Community Facility loans, and 37 preapplications and applications, totalling \$38.6 million, for guaranteed community Facility loans. A substantial portion of these Community Facility loans will be directed toward assisting rural America in meeting its health care needs. In addition,



160 preapplications and applications were on hand, totalling \$38.2 million, for the Rural Business Enterprise Grant program.

The President's budget for 1994 includes \$389.4 million for direct and \$75 million for guaranteed Community Facility loans. In addition, \$51.3 million is requested for Rural Business Enterprise Grants, and \$3.6 million for Rural Community Fire Protection Grants.

#### BUSINESS AND INDUSTRIAL DEVELOPMENT PROGRAMS

RDA makes an important contribution to building a stronger rural economy through its financial assistance for businesses and industries. The Business and Industry loan guarantee program provides larger businesses, already critical to the rural economy, with government-backed private funding for industrial conversions and expansions that enable them to maintain and enhance their competitiveness. The Intermediary Relending Program targets smaller, emerging firms with tailored assistance provided through "intermediaries," usually regional or local private non-profit organizations or public agencies, that are able to work closely with newer firms to better assure survival during the critical early years. RDA supports these intermediaries by making long-term loans to capitalize revolving funds.

As of March 12, 1993, RDA had on hand 125 preapplications and applications, totalling \$197.8 million, for the guaranteed Business and Industry loan program, and 38 applications, totalling \$32 million, for the Intermediary Relending Program. Historically, demand for these programs has been strong. As a result, RDA will be able to make effective use of all the funds appropriated to it.

The President's budget for 1994 includes \$300 million for guaranteed Business and Industry loans, and \$174.6 million for the direct Intermediary Relending Program.

#### ADMINISTRATIVE EXPENSES

The request for salaries and expenses is \$37.7 million with \$916,000 additional for non-reimbursable program loan costs. The \$37.7 million will be derived from a transfer of \$27 million from the Rural Development Insurance Fund, a transfer of \$2.5 million from the Rural Development Loan Fund, and \$8.2 million in a direct appropriation to the Rural Development Administration. The budget request will support 402 ceiling staff-years.

In addition, the Farm Services Agency request contains a total of \$37.1 million and 523 staff years for the support of Rural Development Administration programs by the Farm Services Agency field office personnel. This \$37.1 million plus the \$37.7 million direct RDA request will support 925 ceiling staff years for executing loan making and servicing activities associated with Rural Development Administration loan and grant programs.

#### COLONIAS PROJECT

In the appropriations bill for fiscal year 1993, the Congress directed RDA to use \$25 million of its fiscal year 1993 water and waste disposal grant funds for colonias. Together with other funding agencies, RDA has responded actively to make its programs available in these areas, and has approximately \$21 million in grant applications. The Conference Report accompanying the Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act, 1993, also requested a report to Congress outlining a comprehensive strategy for successful program delivery in the colonias. RDA is taking the lead in preparing this report, along with the Department of Health and Human Services, the Department of Housing and Urban Development, and the Environmental Protection Agency. The report is due to Congress on July 1, 1993.

This concludes my formal statement on the Rural Development Administration. I will be happy to answer any of your questions.

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#### STATEMENT OF KATHLEEN CONNELLY

Thank you for this opportunity to appear before the Subcommittee to discuss the fiscal year (FY) 1994 Budget for the Federal Crop Insurance Corporation (FCIC). Stabilizing rural communities through an actuarially sound system of crop insurance has been an important public policy of the United States for over half a century. When weather perils cause loss of production, the crop insurance indemnities provide insured persons with income for payment of loans and other operating costs of the farm, as well as family living expenses.

Agriculture is a risky business as the weather of the 1980's has reminded us. Events of that decade have left farmers, lenders, and the Federal Government more aware of the need to consciously manage risk.

The ability to react to the changing risk environment of the 1990's, to manage risk, will determine which farmers most likely survive and prosper in the 21st century. Risk management tools like crop insurance are tailor-made for the new risk environment.

#### ORGANIZATION, SIZE AND LOCATION, AND FIELD STRUCTURE

FCIC is a Government chartered corporation established under the authority of the Federal Crop Insurance Act, as amended. FCIC is statutorily limited to 760 permanent full-time employees. For fiscal year 1994, FCIC will not exceed the authorized level of 845 full time equivalent staff years.

Over 90 percent of the total premiums are written by commercial insurance companies who operate under a financial arrangement called the Standard Reinsurance Agreement (SRA). These companies sell crop insurance, adjust losses, guarantee payment of the premiums to the Government, and share in any gains or losses on a state-by-state basis. For the balance of premiums, most are written by contractors under the Sales and Service Contract (SSC). These contractors are responsible for the sale of the crop insurance and collection of the acreage report from the insured person. Losses on sales by the SSC's are adjusted by independent contractors hired by FCIC.

As authorized by the FCIC Act of 1990, operating expenses of commercial insurers and the sales and service contractors are reimbursed by FCIC. The premium costs of insured persons are subsidized under the terms of the FCIC Act.

FCIC is headquartered in Washington, D.C. This office provides overall policy, program, and general management leadership for establishing and administering the insurance and reinsurance policies for the farmer and the industry. These services are provided in support of the overall program as it is delivered through the various field offices to our delivery system partners.

The Kansas City, Missouri, office provides operational support for the administrative and program functions of the direct insurance business and the reinsurance program. This includes analyzing productivity and risk in the determination of premium rates; analyzing changes in crop insurance terms of contracts; exploring expansion of program coverage; developing and maintaining underwriting standards to ensure uniform risk management strategies and applications; and the collection of all crop and financial data required for policy determinations, underwriting decisions and financial management.

Six Compliance Field Offices provide assurance by conducting recurring and unannounced random reviews and audits to assure that mandates, policies, and procedures are effective and are followed by persons involved in delivering crop insurance. This ensures fair and equitable treatment of the farmer, taxpayer, and FCIC.

Ten Regional Service Offices formulate and recommend policy that is specific to the needs of the region for which each is responsible. These offices provide customer service, problem identification, resolution and/or referral Services, as well as assistance on program issues related to underwriting and claims administration.

Four Direct Services Offices oversee loss adjustment and the processing of claims for the direct sales through the SSC's. Associated with these offices are 54 small Area Claims Offices which generally are co-located with ASCS offices for easy access by farmers. The Area Claims Offices contract with loss adjusters and assign these persons to work specific claims.

The fiscal year 1994 Budget for the Administrative and Operating Appropriation reflects a net reduction of \$105.1 million from the prior year level in delivery costs. This reduction reflects a decrease of about 25-30 percent in payments made to private reinsurance companies for program delivery and a decrease of about 15-20 percent for FCIC's overhead expenses.

Administrative overhead expenses have decreased by a net total of \$18.3 million from the 1993 appropriation level.

This net decrease includes \$7.9 million reduction to implement the President's Executive Order to reduce overhead type expenses by 3 percent in fiscal year 1994; \$18.2 million redirected to delivery expenses; \$4 million for 20 reduced staff years as part of a 5-year plan to reduce Federal civilian employment in accordance with the President's Executive Order; increases of \$986,000 for the annualization of the fiscal year 1993 pay raise; and \$7.2 million increase for non-salary inflation of items such as supplies, contractual and support services.

## GOALS AND INITIATIVES

Following direction provided by the 1990 Farm Act, FCIC has aggressively pursued several initiatives to improve actuarial soundness and contain costs within the multiple peril crop insurance (MPCI) program. FCIC has steadily increased the share of risk to private insurance companies while also gradually reducing administrative expense reimbursements. Since 1991, FCIC has realized an administrative cost savings of about \$14 million each year. FCIC continues to reduce administrative costs for delivery of crop insurance through better identification of activities that are required for effective delivery of the product and the costs involved.

FCIC has continually increased the risk to the private sector in each year's reinsurance agreement since passage of the Farm Act of 1990. The amount of potential underwriting loss that private insurance companies absorb in loss years is much greater today. For example, in 1988, commercial insurers absorbed about \$8 million in losses. Had the 1992 reinsurance agreement been in effect that year, FCIC estimates the losses to the private insurance industry would have been \$41 million. FCIC has continued this trend in subsequent agreements to assure meaningful industry participation in years of loss. Under the agreement for fiscal year 1994, FCIC estimates underwriting losses for the 1988 crop year would have been about \$58 million.

These comparisons are based on the actual amount of business for each year. In 1987 and 1988, the business was about one-half of today's current premium level; At the current estimated premium level of \$750 million, the industry's potential underwriting losses in a year such as 1988 likely would exceed \$100 million under the 1994 reinsurance agreement.

Because a greater share of risk is transferred to private insurance companies, the average underwriting gain has been reduced. Had the new reinsurance agreements been in effect during 1987-1991, FCIC estimates that the total underwriting gain retained by the insurance companies would have been reduced by nearly 38 percent.

The systematic adjustment of rates and coverages by FCIC is producing additional cost savings for the Federal Government by reducing crop losses and placing the MPCI program on a more financially sound basis. These annual adjustments were initiated beginning with the 1991 crop year and have begun to stabilize the financial performance of the crop insurance program. Annual rate increases are limited by the 1990 Farm Act to no more than 20 percent. Although premium rates in many areas will be fully adequate in fiscal year 1994, there are still some areas that are not adequate. FCIC intends to increase premium rates as needed. Our experience has been that total participation level remains relatively constant, despite systematic rate adjustments.

In addition, FCIC continues to expand the Nonstandard Classification System (NCS) to identify and adjust the rates and coverages of high risk farming operations that consistently receive indemnities well in excess of premium. Use of the NCS system allows FCIC to reduce the pressure for across-the-board rate increases to accommodate the loss histories of a small percentage of insured farmers.

Intelligent rate adjustments are critical to a properly managed crop insurance program.

## CHANGING CONDITIONS OF THE NEW RISK ENVIRONMENT-AREA YIELD INITIATIVES

For crop year 1993, FCIC has offered producers another new insurance alternative. All producers may now purchase a 35 percent coverage level under the existing MPCI program. This provides an extremely low cost alternative for those farmers who want protection against the most catastrophic of losses. The premium for this coverage level is about 16 percent as expensive as the premium amount for the 75 percent coverage level.

To better meet soybean farmers' needs and reduce excess losses, FCIC created a new soybean insurance plan that is being pilot tested beginning in the 1993 crop year. This alternative is called the Group Risk Plan or GRP. Under this plan farmers are paid based on the area yield—not their individual yield, and will receive a payment any time the county yield drops below a trigger yield that the individual farmer chooses. In the 96 counties where GRP is currently being tested on soybeans, losses exceeded premiums by \$170 million during the 1980's. Had this same acreage been insured under GRP at the maximum levels, losses would have been less than \$10 million over the same time period. Over a longer period of time, GRP would eliminate such losses. GRP is a risk management tool most useful for farmers whose yields closely correspond to the county's yield. The GRP, coupled with well designed commercial products, may provide a more complete risk management product for individual farmers.



FCIC's 1994 Budget supports a phase-in of an area yield concept in more areas and crops, beginning with the 1994 crop year, similar to FCIC's pilot GRP of insurance. The proposal provides for a transition from the current insurance program to the new initiative by offering alternative plans of insurance. Based upon loss experience from 1982-1991, county crop programs that have an accumulated loss ratio exceeding 2.19 would be restructured to combine substantially reduced individual yield coverage and expanded GRP to the maximum extent possible. The accumulated loss ratio for the county crop programs that are not restructured is 1.10. About 5,100 county crop programs must be restructured to provide plans of insurance that may be more actuarially sound. FCIC will expand GRP to approximately 700 counties for corn, wheat, and grain sorghum and some additional counties of soybeans. A limited number of additional counties for cotton, peanuts, and sunflowers may prove feasible. For now, individual yield coverage will continue to be offered for all county crop programs, as required by the FCIC statute. However, we have proposed appropriation language and a change in the FCIC statute, so that GRP can eventually be offered without a simultaneous offer of individual coverage. GRP requires data on yields for many years so that an actuarially sound program can be determined. For all counties where data is not available that would be restructured or that FCIC presently offers insurance, FCIC will offer a substantially reduced individual yield offer with limited unit division options. In addition, FCIC will offer a modified Actual Production History (APH) program for those county crop programs that do not need restructuring. This will improve the overall performance of the crop insurance program. FCIC has found that producers who fail to provide previous production history collect proportionally more losses than producers who do provide information. FCIC intends to modify the current APH program in these counties to offer a lesser amount of coverage to the producers that have less than 4 years of production history. Producers in all counties who do provide 4 or more years of records will be allowed to use a simple average of their production history to establish insurance coverage.

These alternative insurance plans will be adjusted over the five year transition period so that most crops and counties will be under a county area yield plan by 1998. FCIC will be working closely with the National Agricultural Statistics Service on county average yield loss adjustment and actuarial data.

#### BUILD A SOLID PROGRAM INFRASTRUCTURE

During 1991 and 1992, FCIC recognized the shift in direct business volume to that of a risk sharing environment by beginning plans to strategically downsize the direct delivery operations and realign FCIC personnel and resources. This will enhance FCIC's regulatory and oversight role. As the field office structure is reduced, employees are being retrained and educated to assist in critical areas of the organization, such as staffing compliance offices, performing underwriting, claims and marketing specialist duties in field offices and in providing better data processing services to enhance customer relations with farmers, taxpayers and companies.

FCIC has continued to strengthen its oversight of program delivery by increasing random, routine performance audits of reinsured companies and sales and service contractors. This includes claims reinspection, policy servicing, program administration, underwriting, financial and quality control reviews. FCIC initiates action to recover funds from companies that may have been overpaid as a result of non-compliance with policies and regulations.

Through these efforts the overpayment error rate has declined from 16 percent during the mid- to late 1980's to 4 percent during the early 1990's. This reduction is directly attributable to FCIC's increased emphasis in performing systematic routine random policy reviews of company service and loss adjustment activities.

#### SUMMARY

In closing, I appreciate the opportunity to outline the many positive initiatives FCIC has been implementing to improve the crop insurance program and to discuss the alternative insurance proposals that FCIC has submitted to cut program costs. Mr. Chairman, this concludes my testimony. I will be happy to answer any questions.

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STATEMENT OF JAMES B. HUFF, Sr.

Mr. Chairman and members of the committee, it is a pleasure for me to be here to discuss the Rural Electrification Administration's (REA) fiscal year 1994 Budget



proposal, the Agency mission, and our current work. I have a statement to submit and I will be pleased to answer any questions.

REA has played a major role as the financial catalyst in providing loans for electric and telephone service throughout rural America. Today, nearly all rural areas have reliable electric and telephone service. Many rural electric and telephone borrowers are financially successful and stable. Rural America is changing, and REA is also changing.

In the past year, the Agency has started the process of modernizing and streamlining service to borrowers. An Agency task force has been organized to process ideas and solve problems that in the past have hampered our ability to efficiently deliver program services. In August, all REA employees were asked for suggestions on improving program delivery. Since then the task force has been working with these ideas to implement them.

Secretary Espy and I agree that if a Government agency isn't first and foremost service oriented, it isn't doing its job. When I started at REA, the programs had begun the process of identifying problem areas and developing recommendations to improve procedures and rules which will enable staff to deliver services more efficiently. Agency staff is working with the trade associations, lenders, and other interested parties in an effort to increase the Agency's responsiveness.

In a parallel effort, REA has published a proposed regulation on lien accommodations under the current mortgage. This regulation updates and streamlines our procedures and requirements and will assist many borrowers in the process of obtaining a lien accommodation.

The Agency is working toward becoming "user friendly" to its borrowers. REA has been working to develop one or more standard mortgage forms to meet the needs of the Agency as well as those of the distribution and power supply borrowers. We expect the new mortgage forms to incorporate up-to-date provisions and a modern structure, and to provide greater freedom of action for borrowers that meet certain financial requirements. The Agency anticipates that the new mortgage forms will enable financially healthy borrowers to manage their operations with less day-to-day oversight from REA. It will also assist those borrowers who wish to obtain secured financing from other lenders.

REA recently entered into an information systems project with an outside contractor. Numerous interviews and workshops were conducted with Agency management, staff, and users of Agency information. Several goals were identified. The first was responsive program services. Also identified were improved information systems, staff expertise, and stakeholder communications. The Agency's goals, strategies, and problems were used to identify high priority applications that should be implemented. As a result of this effort, REA now has an implementation plan which identifies and prioritizes for development a number of automated information system projects over a five-year period.

REA is continuing to process the repricing of Federal Financing Bank (FFB) borrowers' high-interest loans. Many of the generation and transmission (G&T) borrowers obtained FFB financing in the late '70s and early '80s when interest rates were very high. The term of the notes allow G&T borrowers to prepay FFB after 12 years by paying a premium of one year's interest at the note's interest rate. This significantly reduces the interest rate to the borrower on the unpaid loan balance. Almost \$900 million of FFB loans have been repriced, resulting in millions of dollars in interest savings for rural electric systems and their consumers.

In addition to the traditional electric and telephone programs, REA is administering a Rural Economic Development Program. The Agency has successfully implemented this program because our borrower network is intricately connected to rural America. These borrowers clearly see the day-to-day needs in the communities around them. They know what the community is lacking because they live and work within the communities and among their institutions. Because we maintain close contact with our borrowers through our field staff, REA is aware of the needs in rural communities as well.

I would also like to mention the Distance Learning and Medical Link Grant Program. It was created to help rural communities take advantage of educational and health services through advanced telecommunications and technology. For example, this program will allow a small rural hospital to communicate with large urban medical centers, providing rural communities access to the latest diagnostics. These are the types of services that are needed and will enable rural residents access to health care services while maintaining reasonable costs. The final rule for this new program was published in late February. Educational and health services facilities in rural areas will now be able to apply for \$10 million in grant funds that are available this fiscal year.

I would like to summarize for you the current status of the fiscal year 1993 loan and grant funds. In the electric program, direct loan authority for fiscal year 1993 is \$625,035,000. We will obligate all the loan funds available for this program. In the direct FFB program, there is \$813,450,000 available. No new direct FFB loans have been made so far this fiscal year. It is anticipated that demand for new FFB direct loans this fiscal year will be approximately \$200 million. With the remaining authority, we will continue with FFB repricings and expect to use the full \$813 million that is available.

The telephone program makes loan funds available through the Rural Telephone Bank (RTB), the REA direct loan program, and the Federal Financing Bank (FFB). All of the available RTB Funds for fiscal year 1993 will be utilized. There is \$239,250,000 available in direct loan funds this fiscal year. One new FFB loan has been made to date; however, we are advising our borrowers of the availability of the \$119,625,000 and expect to make additional loans from this authorization during 1993. One FFB telephone loan has been repriced.

The Rural Economic Development Loan and Grant Program has \$12,389,000 available in loan funds and \$14,098,000 in grant funds. The newly established Distance Learning and Medical Link Grant Program, which I mentioned earlier, has \$5,000,000 available for this fiscal year and \$5,000,000 available from fiscal year 1992 funds.

REA'S most important resource is its employees and we must continue to use their talents wisely. Without the knowledge, skills and dedication of the REA staff and the borrowers, we would not have achieved the notable success associated with this program.

The 413 headquarters personnel, located in Washington, D.C., consult with borrowers on a regular basis, monitor financial conditions, process electric, telephone, and rural development loans and grants, and draft regulations that establish loan and grant procedures for borrowers. Our 110 field personnel work with the borrowers and the community and are our direct link to rural America. These highly mobile field representatives work out of their homes, driving to the borrower's location to provide service.

Many of the projects we have underway are making great progress. The Administration's budget proposal continues the REA programs and proposes some changes such as increasing the interest rate of direct programs from 5 percent to Treasury's cost of money. However, the budget maintains the availability of capital which is important to REA borrowers.

## FISCAL YEAR 1994 BUDGET PROPOSAL

### ELECTRIC PROGRAM

For the direct electric loan program, the budget proposes a total of \$625 million. This includes \$25 million for direct loans at 5 percent interest rate and \$600 million at Treasury interest rate. The 5 percent program will be established for borrowers who are financially unable to pay the Treasury interest rate. A subsidy appropriation of \$4.6 million is estimated, \$4.1 million for the 5 percent program and \$540,000 for the Treasury rate loan program.

REA is also proposing a total of \$813 million for FFB financed direct electric loans. This includes \$513 million for repriced loans and \$300 million for new loans. No subsidy appropriation is requested for FFB financed electric loan program. Beginning in fiscal year 1994, new Federal Financing Bank direct electric loans will be charged a loan origination fee equal to the amount of the subsidy. This fee, 1.03 percent in fiscal year 1994, will eliminate the subsidy cost of the loans. Repriced loans do not require a subsidy.

The total loan authority for the electric loan program would be \$1.4 billion, which is the same loan level appropriated in fiscal year 1993. The total subsidy appropriation required for fiscal year 1994 would be \$4.6 million, which is a substantial reduction of \$148 million from fiscal year 1993.

### TELEPHONE PROGRAM

For the telephone program, the budget includes \$239 million in direct telephone loans at Treasury interest rate. A subsidy appropriation of \$48,000 is requested for these loans.

REA is also proposing \$120 million for FFB financed telephone loans and \$177 million for Rural Telephone Bank loans. No subsidy appropriation is needed for the FFB financed loan program; however, a subsidy appropriation of \$35,409 is required for the RTB loan program.

The President's 1994 investment package includes \$50 million for the REA telephone program. There is \$25 million in direct telephone loans at 5 percent interest and \$25 million in Rural Telephone Bank loans at the Treasury interest rate. The additional funding will provide loans for distance learning and medical link purposes and modern telecommunication equipment. The subsidy appropriation required for the total investment package of \$50 million would be \$3.2 million.

The total loan authority for the telephone loan program would be \$586 million, an increase of \$50 million, over the level authorized in fiscal year 1993. The total subsidy appropriation required for fiscal year 1994 is \$3.3 million which includes the subsidy on the \$50 million rural telephone loans in the investment package.

#### RURAL ECONOMIC DEVELOPMENT

The budget request for rural economic development loans is \$13 million, which requires a subsidy appropriation of \$3.4 million. This is the same subsidy amount appropriated in fiscal year 1993.

No direct appropriation is requested for rural economic development grants. These grants will be funded from the interest differential on cushion of credit payments made by REA borrowers. Estimated earnings in fiscal year 1994 is \$5.4 million.

#### DISTANCE LEARNING AND MEDICAL LINK GRANTS

The budget proposals includes \$5.1 million for distance learning and medical link grants. This reflects a small increase over the fiscal year 1993 enacted level, but resources for these purposes will be augmented by loans under the investment proposal.

#### SALARIES AND EXPENSES

A total of \$38,716,000 for salaries and expenses, is requested, \$29,811,000 to be appropriated to the Rural Electric and Telephone Loans Program Account and \$8,905,000 to be appropriated to the RTB Program Account. This is an increase of \$678,000 over the 1993 appropriated amount for Salaries and Expenses and will be used for the annualization of the 1993 pay act. REA's staff-year allowance for fiscal year 1994 is 520.

#### SUMMARY

The budget reduces the cost of the REA programs while maintaining service to rural America. Our management skills will be called upon to make the best possible use of the available funds. I am confident that REA will respond to the challenge.

Life in rural America has changed quite a bit over the last 50 years. It has certainly become more complicated. We cannot afford to do business as usual. We must prioritize our needs and refocus our efforts. I look forward to working with the Committee to implement the President's proposals.

This concludes my statement. I will be glad to answer any questions you or the Committee may have.

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#### BIOGRAPHICAL SKETCHES

##### BOB J. NASH

Bob J. Nash, a native of Arkansas, was born in Texarkana, Arkansas, and has served the State of Arkansas in a number of capacities the most recent of which was as the President of the Arkansas Development Finance Authority from 1989 to 1992. In this position Mr. Nash served as the primary policy advisor to the Governor in the areas of economic development, development finance, small business development, and housing policy. Mr. Nash also served as the Governor's representative on the Lower Mississippi Delta Development Commission, National Governor's Association, Economic Development and Technological Innovation Committee, and the Anthony Commission on Public Finance.

Prior to that Mr. Nash served in the Office of the Governor of Arkansas as the Senior Executive Assistant for Economic Development, a position he held from 1983 to 1989. In this position, Mr. Nash also served as the Governor's liaison to a number of organizations involved in community and economic development including: the Southern Development Bancorporation, the Arkansas Homebuilders Association, the ad hoc Agricultural Council, and private non-profit economic development organizations.



From 1975 to 1983 Mr. Nash was the Vice-President of the Winthrop Rockefeller Foundation in Little Rock. In this position Mr. Nash was responsible for the Foundation's work in rural economic development. Prior to joining the Foundation, Mr. Nash was Director of Community and Regional Affairs for the Arkansas Department of Planning.

From 1970 to 1975 Mr. Nash served as an Assistant to the Deputy Mayor of Washington, D.C., Assistant to the City Manager of Fairfax, Virginia, and as the Administrative Officer of the National Training and Development Service.

Mr. Nash earned a B.A. in Sociology from the University of Arkansas and an M.A. in Urban Studies from Howard University.

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#### SHARRON S. LONGINO

Sharron S. Longino was appointed Associate Administrator of the Farmers Home Administration by Secretary of Agriculture Mike Espy on February 22, 1993. She also is currently serving as Acting Administrator of the Agency.

Ms. Longino, a native of Hazlehurst, Miss., has more than 16 years experience with FmHA programs from several vantage points.

When she worked as a paralegal in central Mississippi between 1976 and 1987 and with a private attorney who handled civil rights cases, some of her clients were FmHA borrowers.

In 1987, after Mr. Espy was elected to Congress, Ms. Longino joined his district office staff in Yazoo City, Miss., where she handled cases from constituents with FmHA concerns. She later became chief caseworker for Mr. Espy and served in that capacity until her appointment as Associate Administrator.

She and her husband Jeff have three daughters.

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#### LOUIS GLENN BENNETT

Glenn Bennett began his career with Farmers Home Administration in 1964, serving in Kentucky as an Assistant County Supervisor and later as a County Supervisor. In 1972, he transferred to the National Office as Loan Officer in the Water and Waste Disposal Loan Division. He was named Director of the division in 1976, and served until 1985, when he became Director of the Farm Real Estate and Production Division. In July 1986 he was named Assistant Administrator for Community and Business Programs, and in May 1992 was assigned as Assistant Administrator of Financial Programs for the Rural Development Administration. In March 1993 he was named the Acting Administrator for the Rural Development Administration.

A native of Kentucky, Mr. Bennett is a graduate of the University of Kentucky with a degree in agriculture.

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#### KATHLEEN CONNELLY

Kathleen Connelly is the Assistant Manager for Administration with the Department of Agriculture (USDA), Federal Crop Insurance Corporation (FCIC). Ms. Connelly joined FCIC in 1991. In this capacity, Ms. Connelly has the responsibility for overseeing several FCIC Divisions: The Office of Personnel, Office of the Comptroller, Management Support Division, and Information Resources Management Division. These Divisions provide all the administrative support for FCIC at Headquarters and in the field, including the financial audits of the reinsured companies and disbursement of administrative payments to the sales and service contractors, loss adjuster contractors, and reinsured companies.

Before coming to FCIC, she served as the Deputy Director of Personnel for USDA and has served 4 years in the Department.

Ms. Connelly served as the Director of Compensation for the Department of Navy prior to her work at USDA, and was responsible for all policy pertaining to direct and indirect compensation for civilian employees.

Her assignment at the Department of Navy was preceded by several positions. She served in the Office of Personnel Management (OPM) as Chief of the Research and Demonstration Staff for several years.

Previous to this assignment, Ms. Connelly managed the evaluation of the Navy Demonstration Project, and a collection of task forces to develop and draft statute and pursuant regulations. As the agency officer for all the economics and Government agencies, she developed policies and procedures for each of the 90 agencies to implement various systems in compensation and related subjects.



JAMES B. HUFF, SR.

James B. Huff, Sr., was appointed Administrator, Rural Electrification Administration (REA), on June 30, 1992.

As Administrator, Mr. Huff manages an agency which has approved about \$63 billion in loans to 2,116 rural electric and telephone utilities located in 47 States, Guam, the Federated States of Micronesia, the Marshall Islands, the Northern Mariana Islands, the Virgin Islands and Puerto Rico.

Mr. Huff also serves as governor of the Rural Telephone Bank. In addition, Mr. Huff oversees a rural development program, started in 1989, which makes loans and grants to promote economic development and creation of jobs in rural areas.

Mr. Huff previously served as state director for the Farmers Home Administration in his native Mississippi. Prior to becoming a federal official, Mr. Huff had a 32-year career with Masonite Corporation, a wood products manufacturer based in Laurel, Mississippi.

Mr. Huff manages a 600-acre tree and cattle farm in Taylorsville, Mississippi, and holds a bachelors degree in agriculture from Mississippi State University. He and his wife, Marilyn, have two children, Jim, Jr., and a married daughter, Melanie Hubbard, and three grandchildren.

#### EXPANSION OF PARTICIPATION IN PROGRAM

Senator BUMPERS. One of the first questions I want to ask you deals with crop insurance. One of the perennial complaints is lack of participation, and farmers say that the program is either too expensive or that it does not provide adequate coverage. Are you doing anything to expand participation on the crop insurance program?

Mr. NASH. Mr. Chairman, I would be the first one to say, as I understand the crop insurance program, not many people are satisfied with it. We have to fix it. I have been working with Ms. Connelly, who is the Acting Manager of the Federal Crop Insurance Corporation, to try to figure out things we can do. It is on the top of my agenda, and very frankly it is one of the programs that I have the least amount of experience with. Therefore, it is the one that I am spending the most amount of time on. There has to be a fix.

The area yield approach is one that we think has some potential given the fiscal constraints that we all know about. We have to do something about the administrative expenses I think, on the part of the deliverers, to make sure that we are getting what we are paying for. I think we simply do not know at this point.

If you don't mind, I would like for Ms. Connelly to talk more specifically about some of the things that she is proposing to us to do.

#### PHASE-IN OF AREA YIELD PROGRAM

Senator BUMPERS. Thank you, Mr. Secretary.

Ms. Connelly, let me ask you something. Are you proposing to institute area yield criteria on the crop insurance program?

Ms. CONNELLY. I'm sorry?

Senator BUMPERS. Is your organization planning to institute an area yield program, and if so, is that not likely to further reduce participation?

Ms. CONNELLY. We are proposing to phase in an area yield program for the first year in 700 to 800 counties across the Nation.

Senator BUMPERS. Tell us, if you will, how will that work?

Ms. CONNELLY. We have to operate right now according to the statute under which we are covered, and that statute requires that

we offer an individual insurance plan as well as a pilot GRP program. We currently have this area yield or group risk program available in 96 counties in the Nation for the soybean crop only. What we would propose to do to meet the intent of the President's proposal is to expand that pilot crop program to between 700 and 800 county crop programs across the Nation and at the same time offer them an alternative that is an individual coverage. In that way, we can further test that pilot and make sure it does behave or perform the way we intend for it to perform and at the same time cover the other producers who would be better suited to an individual offer.

#### LOSS PAYMENTS UNDER AREA YIELD PROGRAM

Senator BUMPERS. I am still not sure of the answer to my question. My question is on this so-called area yield, I just wanted to know in layman's language, are you saying that in order for your crop insurance to kick in that if you have an individual loss for a natural disaster, you still would not be eligible unless a certain area also suffered that same kind of loss?

Ms. CONNELLY. It is all based on a county yield. That is exactly right.

Senator BUMPERS. You want to do it on a county basis?

Ms. CONNELLY. It is on a county basis. If a county experiences a loss, you as a farmer or as a producer can select a coverage. If the county yield goes below that coverage, you are eligible for payment.

Senator BUMPERS. How big a loss would the county have to suffer?

Ms. CONNELLY. It would depend on the trigger that is selected. If the county yield is 30 bushels, as an example, per acre, and you have selected a trigger yield of 27 bushels, if the county performs in such a way that it goes below that 27 bushels, then you would receive a payment.

Senator BUMPERS. You would get your deficiency?

Ms. CONNELLY. That is right. However, if the county yield were to be 30 bushels and your individual farm would go below to 25 or 24, then you would not receive a payment.

Senator BUMPERS. How does that differ from the way the system works now?

Ms. CONNELLY. Now your payments are totally dependent upon your actual production history or your transition yields and your individual performance according to that yield. So, if your farm is not producing according to what your history would have proven and according to the coverage that you have selected, then you would receive payment.

Senator BUMPERS. The answer to my next question probably depends on what I bought, the kind of coverage I got. Say I traditionally make 40 bushels of soybeans per acre, but the county yield is 30 bushels per acre. If the county yield is 27 bushels, do I get 13 bushels or 3 bushels? Let me restate it.

Ms. CONNELLY. What you are saying, I believe, is if your yield is ordinarily above the county yield—

Senator BUMPERS. Above the county level.

Ms. CONNELLY. Would you receive a payment.

Senator BUMPERS. Yes.

Ms. CONNELLY. It would depend on the coverage that you selected. Obviously, this program is better suited to those farmers who are right on the mean, but you can receive a payment.

Senator BUMPERS. I assume that in buying this insurance, if I knew the county yield was 30 bushels and I have been customarily making 40 bushels, if I insured myself for 40 bushels, could I do that, first of all?

Ms. CONNELLY. You could do that. This pilot is more targeted toward the farmer who is producing pretty much on the mean of the county. It was intended for that niche market that would be pretty much the county mean. There is debate upon how effective it would be for the producer who would exceed that mean.

Senator BUMPERS. Let me restate this. I am not knowledgeable on farm—I have an aide who knows more about this than anybody I know, but I have never really understood crop insurance very well. Let me ask you this question.

Let's assume that you have a county now that has a 30-percent average yield on soybeans. Let's assume that the county yield this year is 27 bushels or a net loss of 3. Now, if I had insured myself for 40 bushels, could I do that?

Ms. CONNELLY. Yes.

Senator BUMPERS. Ten bushels in excess of the county yield?

Ms. CONNELLY. Yes.

Senator BUMPERS. Then let's assume further that I have a 30-bushel yield. Now, what do I get paid? Do I get paid the difference between 40, which is what I insured myself for, and 30, or do I get paid the difference between 40, which is my normal yield, and the 3-bushel shortage on the areawide yield, the countywide yield? Which one do I get paid on?

Ms. CONNELLY. You would get paid on the 30.

Senator BUMPERS. So, I would get paid for 10 bushels that I lost.

Ms. CONNELLY. Yes.

Senator BUMPERS. I am not going to pursue this because we could be here all afternoon, and I probably still would not be—

Ms. CONNELLY. Well, it is a very complex issue and it is still a pilot. Questions that need to be addressed are how well will it perform, how much participation will we have it in who does it work the best for, and how can we improve it.

#### CROP INSURANCE PROGRAM IN HAWAII

Senator BUMPERS. Why is Hawaii not included in the crop insurance program?

Ms. CONNELLY. Why is Hawaii not included?

Senator BUMPERS. Farmers came to town recently from Hawaii, and we were talking about Hurricane Iniki, and we said how did crop insurance work there. They said we do not have it. We are not eligible.

Ms. CONNELLY. I believe we have sugarcane covered in Hawaii. I would have to double check that and I will submit it for the record happily, but I believe we do. I believe that is the only crop.

Senator BUMPERS. Staff tells me that macadamia nuts and sugarcane probably are covered. They were talking about guava I



guess and other maybe more fruit crops and so on. We will submit this to you for the record and you can report back to us on that.

Ms. CONNELLY. OK.

Senator BUMPERS. Do you use ASCS personnel in trying to promote and sell crop insurance or not?

Ms. CONNELLY. We have attempted to do that. As a result of the 1990 farm bill and the encouragement to use ASCS personnel, we have gone through an extensive training period. We have trained people in each State office to offer crop insurance. We have provided as much assistance as we believed possible. However, last year to my knowledge, only two policies were sold by ASCS personnel.

#### COMMENTS ON A PROPOSAL FOR REA

Senator BUMPERS. Mr. Huff, let me turn to you. Do you know what the House Agriculture Committee did to you? [Laughter.]

Mr. HUFF. I am still trying to figure it out, but vaguely.

Senator BUMPERS. Based on what you know, how happy or how sad are you?

Mr. HUFF. Mr. Chairman, the best way I can answer you is that we are in the process of analyzing it. The Secretary has a committee working on reorganization, and I would really prefer to hold up on any comments until we are further along with the study.

Senator BUMPERS. They authorized \$125 million for 5 percent hardship loans, and if you recall, our budget resolution only had \$25 million. So, you benefited from that, didn't you?

Mr. HUFF. Yes; that is right.

Senator BUMPERS. They authorized \$600 million for a new loan program, and this is something that Bob Bergland, I thought in my office, had said that you were seeking and that was the ability to borrow money at municipal rates. The House gave you \$600 million to borrow at municipal rates and capped it at 7 percent. So, if municipal rates went above that, you would still be able to borrow at 7 percent. That is not a bad deal, is it?

Mr. HUFF. Well, no, sir.

Senator BUMPERS. Bad is a relative term I understand.

Mr. HUFF. Like I said, we have not really analyzed the proposal thoroughly, Mr. Chairman, so I would like to reserve comment.

Senator BUMPERS. You just ain't going to talk about it. [Laughter.]

Mr. Secretary.

Mr. NASH. Thank you. Mr. Chairman, the budget, as submitted by the President, is the one that we are going with until there has been some agreement between the administration, OMB, and the Department. That proposal lists a number of issues. It is different again than the one that was in the budget. What we want to do is to make sure that we are all singing out of the same hymnbook before we say what we like or do not like about the proposal. I realize there are a lot of people involved in it, and we want to wait and see and also participate.

Senator BUMPERS. I understand that. When I was Governor, I used to find my own employees up in the legislature lobbying against my bills, and I took a very dim view of that. [Laughter.]

Mr. NASH. I clearly understand that, Mr. Chairman.



Senator BUMPERS. You have worked around the Governor's office long enough to understand that, haven't you?

Mr. NASH. Yes, sir; I have.

Senator BUMPERS. Ms. Connolly, one other thing. If we change the crop insurance program in reconciliation, which I think is a possibility, would that give you time? Let's assume that we get reconciliation out of here by the end of July. Would that give you time to implement any major change, particularly in the production history, for the 1994 crop year?

Ms. CONNELLY. We anticipate that in 2 to 3 months we will have to provide some stability to the farmer and to the insurance industry. If you came up with a different set of numbers in July or August than what we have, we are prepared for that in that what we are trying to do is offer a product and a vehicle for selling that product that is flexible enough to be able to accommodate different numbers. The numbers that we have right now are a bit difficult to reach. The products that we have agreed so far to offer—and working with industry, we think we can do it—will allow that flexibility to reach new numbers.

Senator BUMPERS. Ms. Connolly, one of these days, if I ever get the time, I would like to have a hearing just on crop insurance.

Ms. CONNELLY. I would totally enjoy that, sir.

Mr. NASH. That would be great.

Senator BUMPERS. It is an area that just never seems to work out. We have been into the crop insurance business for a long time, and nobody ever seems to be happy with it. Maybe that is just the nature of the beast. Maybe it is always going to be that way. But before I do that, I will try to get boned up on exactly what has happened during the history of crop insurance and see if I can add anything to it.

#### DEMAND FOR THREE-BEDROOM UNITS

Mr. Secretary, I guess I ought to address this question to you. You are familiar with section 515 housing?

Mr. NASH. Yes, sir.

Senator BUMPERS. I understand that the vast majority of houses built under section 515 are two-bedroom. Is that because of budget constraints or because that is the demand? Aren't three-bedroom homes much more saleable for resale purposes? Don't you have a bigger demand than that for three-bedroom homes?

Mr. NASH. Mr. Chairman, the 515 program is the multifamily housing program. Are you referring to the multifamily program or the single-family program?

Senator BUMPERS. This is a Department program. Do you want to defer to Ms. Longino?

Mr. NASH. Yes; let me do that. I am not familiar with the demand for two as opposed to three bedrooms, but I know in rural areas, you do have significant numbers of large families, although not as many as we have had historically. I remember when I was growing up, we had to have a lot of kids to work on the farm. But I am not sure we still have that many, but let me let Mrs. Longino respond to that question, if I could.

Senator BUMPERS. Go ahead, Ms. Longino.

Ms. LONGINO. Based upon the feasibility studies that have been submitted along with the preapplications, there has been a significant demand for two-bedroom units.

Senator BUMPERS. So, you are building what your applications are for? Is that what you are telling me?

Ms. LONGINO. Yes, sir.

Senator BUMPERS. How many units did you build last year?

Ms. LONGINO. The total number of 515 units?

Senator BUMPERS. Yes.

Ms. LONGINO. 14,787.

Senator BUMPERS. How does that relate to the demand?

Ms. LONGINO. To the demand?

Senator BUMPERS. Yes; do you have a bigger demand than that?

Ms. LONGINO. Yes, sir; we had a bigger demand. We had applications that could not be funded because of our funding constraints.

#### SCORING OF HOUSING APPROPRIATION REQUEST

Senator BUMPERS. The Secretary has testified that for rural housing programs, the administration is requesting a budget of \$2.7 billion for housing loans and \$413 million for grants and other payments. Now, that budget of \$2.7 billion, you are not actually asking for \$2.7 billion, are you or aren't you?

For example, in the Small Business Administration, OMB requires us to score \$2.5 billion loans at about between 4.5 and 5 percent. For example, we only have to appropriate \$140 million in order to make 2.5 billion dollars' worth of loans. Now, does this program work the same way?

Ms. LONGINO. The fiscal year 1994 budget is based on credit reform requirements. Budget authority and outlays reflect the estimated cost to the Government of loan programs over the life of the loans. These subsidy costs include interest subsidy, and the costs of estimated delinquency and default. Appropriations for loan subsidy costs can have a dramatic leveraging effect on loan program levels. For example, at a loan cost of \$751 million, our fiscal year 1994 requested program level for housing loans is over \$3.3 billion.

Senator BUMPERS. Well, staff tells me and I am looking at a page here of documentation where you are asking for \$750-plus million which would give you \$3,330,000,000 in loans. Is that correct?

Ms. LONGINO. Yes, sir.

Senator BUMPERS. So, it works the same way only yours is just scored a lot higher than SBA's is.

Ms. LONGINO. Yes, sir.

#### CENSUS DATA AND WATER AND SEWER GRANTS

Senator BUMPERS. Mr. Secretary, one final question and we touched on this once before in a hearing here about the water and sewer programs. As you know, this new census is causing Senator Cochran and me a lot of heartburn because we have an awful lot of water and sewer grants that are ready to go, but just to give you some information, if we use the 1990 census, we get killed. Under the 1980 census, we have 72 of our 75 counties that are eligible for full grant assistance, but if we use the 1990 figures, that is reduced to 13. So, we go from 72 eligible counties to 13 eligible counties.

As a matter of fact, the 1990 figures make 20 counties ineligible for any level of grant assistance.

RDA, for example, has under consideration 84 applications for assistance, and using the 1990 information, 24 of those are no longer eligible.

I would like very much to be able to go through a transition period without that much trauma because I can tell you we have some projects that people have been waiting for for years that just go right out the window.

I might also say the President's stimulus program got killed. The two gentlemen on my left don't know about this yet, but it did. [Laughter.]

When it comes to stimulus, we have all these water and sewer programs ready to go. If we change this method, everybody is going to have to go back to square one. I can tell you that these water and sewer grant applications are big job producers. There is where you do the Lord's work in two ways. You provide water and sewer grants and you put people to work. Would you comment on that?

Mr. NASH. Yes, sir; by regulation we are required to use the most recent census, which is the 1990 census. However, I know that there are a number of projects that were in the pipeline before the census figures came out for 1990. I know the applications were prepared based upon the 1980 census.

I would like to look at some ways we can do something about those projects that are ready to go without breaking any rule that has been established, and there are some options that are administrative or regulatory. One example might be adjusting the median income, which now is 100 percent of median income. Anything above that, you don't qualify. That is one option.

As it relates to the stimulus package, we were hoping that because that stimulus package was related to job creation, that we might be able to find a way to make an exception there. But for the projects that are ready to go that support job creation, we ought to try to find some way to try to make them happen. I am very sensitive to that issue and will be talking with your staff and others who have an interest about it.

Senator BUMPERS. That is a good answer, Mr. Secretary. Thank you very much.

Senator Cochran.

Senator COCHRAN. Mr. Chairman, I am going to yield to my friend from the State of Washington because I know he has been here a long time waiting. I will follow him.

#### POOLING OF SECTION 502 GUARANTEED LOANS

Senator GORTON. Thank you and I thank you, Mr. Chairman.

I have a question on the 502 program, and I do not know whether that would be Ms. Longino or Secretary Nash, whichever one of you wishes to deal with it.

As you all know, on April 21 the Farmers Home Administration 502 single-family housing guaranteed loan program ran out of money.

Mr. NASH. Yes, sir.

Senator GORTON. In early April when the funds were low, FmHA repooled the remaining funds nationwide and redistributed them.



At that time my State, Washington, which was originally allocated \$5.5 million for this fiscal year, had only spent just barely over 50 percent of its allocation. The other 50 percent was revoked and redistributed to other States that had gone over their initial allocation. This repooling left nearly 60 families in Washington State, depending on loans from FmHA, literally homeless. It also is forcing some local developers into bankruptcy because they developed housing specifically for that use based on full funding to the State.

Now, as I understand it, many of the States that went over their allocation did so because the national office of FmHA told them that they were going to get \$234 million from the so-called stimulus package which was defeated. It seems to me that this is sort of like, Secretary Nash, your having two college age children on an allowance. One of them spends his whole allowance in the first semester of the year, and so you take the money from the other child's allowance and give it to the one who has been spendthrift.

Why did you tell them to go ahead and engage in this activity, and what in the world can you do to save people who were responsible, who did not overspend their allocation, and who now are having people homeless and builders bankrupt as a result of its being taken away?

Mr. NASH. Senator, as I understand the concept of the term called pooling, in the past as funds were allocated to each State, in some cases you would get toward the end of the year and find States that had not spent their allocation when there were still needs somewhere in the United States of America. That money would be lost. So, the concept of pooling, I think, was to try to make sure that money got out to where the need was.

Senator GORTON. I don't think anyone would have an objection to that at the end of the year when the State on the lower end of the scale obviously was not going to spend the money, but that was not true in April.

Mr. NASH. One of the things that happened is that we started earlier in making money available, which is one of the reasons the money ran out sooner.

One of the things that I think we have to do is to make sure that we work with those States that are getting close to having their money pulled back in and pooled, we need to get with them earlier and do more to encourage them to get the money out. I think the pooling concept is good, but maybe we ought to make sure that those States that look like they have one-half of their money left—again, we have some responsibility there. That is one thing.

The second thing is for those families who are truly in a hardship mode, there is somewhat less than \$1 million now for hardship cases not for just the average borrower, but hardship cases. So, there is still something available for that.

If we told people to continue to make applications when we knew money was not available, I will make sure that that does not happen. I am not sure that we did. Those are some of the things that I think we can do to avoid this situation in the future.

#### FISCAL YEAR 1993 ALLOCATION OF 502 GUARANTEED

Senator GORTON. Well, is there anything specifically you can do for the balance of this fiscal year to take care of the situation you



have created in Washington State and I assume in a number of other States as well?

Mr. NASH. Is there anything we can do the rest of this year?

Senator GORTON. Yes.

Mr. NASH. Outside of the hardship cases, the only thing that we can do is to hope for money that is in the supplemental package for the 502 program for this year.

Senator, may Ms. Longino make a statement please?

Senator GORTON. Sure, I would love to hear from her.

Ms. LONGINO. I would like to explain how we went about notifying our State office and our lenders.

First, the total allocation was released in the first quarter. In December, we notified all of our States that due to the release of the early allocations they were receiving, that there would be a pooling in April, around April 1. We pooled around April 6. So we notified them in December this pooling would be coming in April. We notified them in February that the money was rapidly being utilized, and they were to notify their lenders as well. We notified them again in April when we pooled the money. We notified them on April 21 as we neared the end of the utilization of the money. So, Mr. Senator, we did inform them in early December that there would be a pooling in April.

Senator GORTON. So, the lesson to any of your State offices is spend the money fast and furiously as early as it comes out because if you plan for a whole year, you are going to lose it.

Mr. NASH. Well, we want them to be diligent, but we also want them to make sure they make good loans. We do not want them to just push loans out the door just to push them out, no, sir. Absolutely not.

#### SALE OF FARM INVENTORY PROPERTY

Senator GORTON. On another subject, but connected with this one, I understand that under laws and regulations in being at the present time, default property under the FmHA can only be sold to farmers who qualify for FmHA, which means that financially sound farmers do not have an opportunity to bid for and acquire the land, that the result is that land is often held for many years by the administration which could be in use, could be on the tax rolls, and the like.

Is there any way to speed up the sale of property currently on the books, and are you looking into any changes either to be recommended to us or to be implemented administratively that would allow financially sound farmers to have access to some of the properties that are held by FmHA?

Ms. LONGINO. Mr. Senator, first of all, the inventory property can be leased or sold. If we cannot find a sale for it, we can then lease it. The Beginning Farmers Act also requires us to work with the beginning farmer. So, we have priority steps that we would go through to try and sell inventory property looking first at the beginning farmer, the socially disadvantaged farmer, and then we open it up to any of the borrowers.

Senator GORTON. But they still have to be FmHA qualified to bid. Someone above that level can never bid?

Ms. LONGINO. Can bid on the inventory property? After 12 months, anyone can apply but we have the priority procedure we go through first. We give priority in the sale of suitable farmland first to beginning farmers or ranchers who are in need of FmHA credit assistance and are socially disadvantaged applicants. Second priority is for beginning farmers or ranchers who are in need of FmHA credit assistance. Third priority is for operators of not larger than family-size farms who are in need of FmHA credit assistance and are socially disadvantaged applicants. Fourth priority is for operators of not larger than family-size farms, who are in need of FmHA credit assistance. Finally, priority is given to operators of not larger than family-size farms who are not in need of FmHA credit assistance, based on eligible rates and terms. Then after 12 months, it is open.

#### FFB PREPAYMENT

Senator GORTON. One question for you, Mr. Huff. I am, of course, familiar in general terms with the reform package that you are laboring under, but I have one very specific question with respect to some generating co-ops in my State. Many of them have higher cost-to-debt payments and cannot refinance their loans through the FFB without paying tremendous interest penalties, but other FFB borrowers, like student loans, less developed countries even overseas, either get the prepayment penalty waived or sometimes the debt forgiven altogether. We are not looking for that, but why should co-ops—and I have two of them in this position—be treated differently from other borrowers? Is there a way or should they be given a statutory right to prepay without penalty if they can get a better deal elsewhere?

Mr. HUFF. The Secretary and I have discussed this. Do you want to answer that?

Mr. NASH. I see my job and the office that I supervise to be advocates for rural areas. I know the interest rates being paid by the co-ops are much higher than current rates. I think that we ought to look at ways to help reduce the amount of money going out of rural areas in the form of interest payments. We are currently looking at ways to do that. I realize we have to look at it in the context of the total Federal Government financial picture, but I think that, again, our job is to be an advocate for rural areas. We ought to look at ways to do that, Senator.

Senator GORTON. I am encouraged by that answer. It is a thoughtful answer and I hope you will do so. They feel really penalized and put to the wall by this present system when other people do not have to suffer the same disabilities.

Thank you. I have a couple of other questions, Mr. Chairman, which I will submit in writing.

Senator COCHRAN. Mr. Chairman, thank you very much.

Mr. Bennett, I was going to ask you a couple of questions about the Rural Development Administration. I did not want you to feel left out here. [Laughter.]

## BACKLOG FOR WATER AND WASTE LOANS AND GRANTS

We are interested in knowing how the backlog of rural water and waste disposal loans and grants for this year will be handled and whether or not there has been a growth in the backlog over the past 5 years. Is this something that is being handled more expeditiously now under the new organization, with the RDA in charge of it rather than Farmers Home? Give us an update on what the outlook is.

Mr. BENNETT. Senator, in the water and waste disposal program, we carry a fairly substantial number and dollar amount of both loan and grant applications. Those are preapplications, ones just coming into the system, as well as those ready to fund. So, all of those are not ready to fund today.

But we do have a continuing demand for the water and sewer program. We think we are utilizing the funds and handling rather well the greatest demand, the more urgent applications. We do utilize all the funds that we have each year, and we continue to have a lot of applications on hand. Applications have been rather stable over the last few years. There is not a large increase in the number on hand.

## ADMINISTRATION OF WATER AND WASTE LOANS AND GRANTS

Senator COCHRAN. Has the reorganization served to make the handling of loan applications more efficient or has it slowed down the process?

Mr. BENNETT. When you get into the States where the applications are actually processed, we have an organizational structure that is very much as we have had in past years. We are operating with the Farmers Home Administration through a memorandum of understanding that provides for the State office and the District Office staffs that have handled those applications in past years to do that this year. So, in response to your question, there is not a great change in the way we are operating our programs.

## REGIONAL RDA OFFICES

Senator COCHRAN. You have some district offices already established. I know in Vicksburg, MS, we have a regional office that covers Mississippi and Arkansas and Louisiana. Are there any other regional offices up and running like we have down in our area?

Mr. BENNETT. This year we are operating with a national office. We have seven regional offices such as the one you referred to in Vicksburg. From that level, we operate in the States under the memorandum of understanding with the Farmers Home Administration.

Senator COCHRAN. So, you are not organized down to a level lower than the regional offices. Is that what I understand?

Mr. BENNETT. Yes, sir; that is correct.

## USDA REORGANIZATION

Senator COCHRAN. Ms. Longino, do you have any impressions or reactions to the new organization and what do you think of it? Is



it going to be changed before it gets further along, or what are the plans?

Ms. LONGINO. Regarding the RDA structure?

Senator COCHRAN. Yes.

Ms. LONGINO. At the present time, that structure is being studied. I would like to submit for the record information on the USDA structure as it is developed from the Secretary's level. Basically we are working under the memorandum of understanding. The main focus for Mr. Bennett at RDA and for me at Farmers Home and for the Secretary is to maintain quality service at the local level as much as possible and in as efficient a manner as possible even though the reorganizational structure is being assessed.

Senator COCHRAN. I hope you will keep this committee closely advised. I do not know whether the budget request provides funds to undertake a reorganization or whether you have the authority to reorganize without the express consent of the Congress, but we do want to be kept closely advised about it.

Mr. NASH. Senator, may I respond?

Senator COCHRAN. Yes.

Mr. NASH. The Secretary does plan to keep the Congress closely advised and I anticipate that the changes being contemplated will require congressional approval. I think it is safe to say that the Secretary's primary concern is that services are being delivered in an efficient manner and, as he says, farmer friendly and rural resident friendly. That is the major criteria. So, we will be working very closely with you on his reorganization effort.

Senator COCHRAN. We appreciate that.

Mr. NASH. Thank you, sir.

#### DISTANCE LEARNING MEDICAL LINK PROGRAM

Senator COCHRAN. Mr. Huff, welcome to the committee. I think this is your first Appropriations Committee hearing where you have been here to present a budget for the REA. We welcome you and commend you for the outstanding work you are doing at REA.

Mr. HUFF. Thank you.

Senator COCHRAN. One thing I would like to ask about is the grant program that is administered by REA in connection with communications activities. It is called the REA Distance Learning and Medical Link Grants Program. The reason I am asking about this is I understand there is a minimum of a \$10,000 amount and a maximum of \$500,000 permitted to grantees under this program.

Down in our State, they are hoping to be able to develop a program so that communication is permitted through the Mississippi community college network involving the Extension Service and the rural health corps program. That is a new program that is just starting up. They are wondering whether or not they might be eligible for successive grants if this maximum of \$500,000 is not enough to complete the program that they have in mind. Is that a legislatively imposed maximum, or is that administratively imposed?

Mr. HUFF. The maximum amount is in the regulations. It is administratively imposed.

Senator COCHRAN. So, it's a regulation.



I wonder maybe if it isn't in order to take another look at that. I don't know whether you have had any questions raised by other States, but at least in our State, they are beginning to ask about whether that might not be an arbitrary amount, whether additional grant funds could be obtained in subsequent fiscal years. For example, if they could get a \$500,000 in 1 year, would they be ineligible under the regulations to apply for additional funds later?

Mr. HUFF. Let me give you a little background, Senator, on where we are on this program. Our first application period for receipt of grants ended on April 30. We have 182 applications totaling \$56.9 million. We have a total of only \$10 million available and \$5 million of that came from the carryover of last year's funds. So, we are dealing with a program that is very popular with very little money. That is the best way I can answer you. So, that is the situation we are in. I am aware of the group from down your way because they have met with us.

Senator COCHRAN. Well, thank you very much.

I also understand that with the request for the interest rate increase the President has proposed, there are some who are wondering whether or not this is going to create an unfair relationship between the level of subsidies that are made available to investor-owned or stock company utilities and public utilities, in comparison with the level of Government support for rural electric co-ops.

I had not realized before this came up in a recent meeting in my office that because of tax writeoffs and other provisions of the tax code, that the Government does support to some level the other utilities and there is a suggestion that because of the interest rate increases the President is requesting, this will put rural electric co-ops at a disadvantage in terms of level of Government support to the other utilities.

What is your reaction to that? Have you had any conversations with people on that subject? What is your impression of it?

Mr. HUFF. It is of great concern out in the rural areas. As they refer to it, the playing field is not level based on the numbers that have been published by one of the trade associations. I cannot really speak to those numbers.

I will tell you this, that OMB, Treasury, and REA are in the process of doing a study to determine how much discrepancy—not necessarily discrepancy—variation there is between the three different entities, the public utilities, the IOU's, and REA. But it is a concern and I really can't discuss the differences.

#### PUBLIC ANNOUNCEMENT OF 1994 PROGRAM CHANGES

Senator COCHRAN. In connection with the Federal crop insurance program, I know that there are going to be some pressures building to announce any schedule adjustments for the 1994 crop program because the sales season is approaching for some crops, as early as July in California, and people are going to want to know what changes are intended in the program, if any, for the 1994 season.

Could you tell us when we might be able to expect some announcement of any changes that are contemplated or adjustments which are scheduled in the program?

Ms. CONNELLY. We are working right now to make public what we have been studying, what we have been trying to do to meet

the President's budget, and at the same time provide a product for the folks in California. We have some others that are coming up close on behind raisins in California. We have tentatively decided to go forward with the 1994 SRA with some amendment to allow flexibility because of the numbers with which we have been presented. So, the vehicle for selling the crop insurance will be out there and it will be public. The industry and the farmers will have it.

Their product itself, that is the insurance product, we are pretty close to being able to announce, but we think we will compose the phase-in for fiscal year 1994 that will enable us to get toward the area yield plan that is in the President's budget, but at the same time allow some crop insurance for the farmers this year. I would expect that would be able to be made public within the next several weeks. It is a combination of an expanded pilot of a group risk program, as well as a modified APH program.

Senator COCHRAN. Thank you very much. I know that those who realize that the crop insurance program's funding levels affect the sales would like very much to know what the appropriations level may be so that can be worked out. Any support that you can provide to give an early indication of a decision to move forward with the program in the meantime would be appreciated I know.

#### RENTAL ASSISTANCE PROGRAMS

Ms. Longino, I have a number of questions about the rental assistance program of the Farmers Home Administration that you and Mr. Nash have already talked about a good deal. Particularly in Mississippi we have been having a running communications exercise with the State Farmers Home Administration office there about shortfalls in funding of the amount required to renew existing contracts, relieve tenant overburden, and service existing units. There are no funds available for servicing needs, as I understand it. The vacancy rate is going up. It sounds like a real mess.

It is not just in Mississippi that this is happening. I understand now that here are other States with higher vacancy rates and long waiting lists because of the shortfalls in the appropriation available for rental assistance. I am told that there is a \$68 million shortfall just in the amount required to renew existing contracts. We probably are not going to solve it today, but I do want you to know of my serious and continuing concerns about this. I am going to submit these questions and you can provide answers for the record, unless you have a magic answer to it that you can tell us about today.

Ms. LONGINO. I think it would be a lot easier to try to explain it when we respond to your submitted questions.

#### EQUAL OPPORTUNITY AT FMHA

Senator COCHRAN. I figured that. I understand and I sympathize.

My final question is one that relates to an Associated Press story that was done analyzing Farmers Home lending activities, saying that there has been discrimination in the program, that black farmers receive less assistance than white farmers under the program. Secretary Espy indicated that he would use the full force of

his new office to fight to ensure equal opportunity for all Americans in the Farmers Home Administration.

My question is, What is being done to carry out the Secretary's commitment to ensure equal opportunity for all individuals seeking Farmers Home assistance?

Ms. LONGINO. The Secretary has recently issued a very strong EEO statement reiterating that every borrower will be treated fairly and equally when applying for a loan with Farmers Home. Every employee in Farmers Home has been sent a copy of that statement.

In addition, the petition we received from the community based farm groups regarding the issues of how black farmers have been treated by Farmers Home has now been forwarded to our EEOC office and the Office of Advocacy and Enterprise. They will look into all of those allegations and make recommendations back to the Secretary and myself as to how we can correct those problems and recommend things that we can do to eliminate those problems from happening in the future.

Senator COCHRAN. Thank you, Mr. Chairman.

Senator BUMPERS. Thank you.

Senator Harkin.

Senator HARKIN. Thank you very much, Mr. Chairman.

Mr. Chairman, I had a statement. I just want to make it a part of the record in the beginning. I will not bother going through it.

Senator BUMPERS. Without objection.

Senator HARKIN. I just have a couple, three questions.

#### FUNDING FOR REA

First of all, Mr. Huff, regarding the REA, I am pleased that a compromise is nearly completed that will resolve a number of issues concerning funding for the REA. Even under the compromise, the REC's will be making a significant sacrifice for deficit reduction. However, the compromise that is being worked out appears to me and my staff to be a way to reduce the cost of the program, but still to maintain the vital role of REA in rural communities.

I am especially pleased that the compromise would allow the REC's to receive grants and loans for rural water and waste water projects from the RDA. I included these provisions in the 1990 farm bill authorizing funding for the REC's to carry out water and waste water projects. But so far we have not been able to fund that program. At least now it appears the REC's will have access to funding for these projects that are so important to rural economic development.

We keep hearing the claim all the time that the REA has done its business. There are electric wires to every farm and so we might as well just go out of existence. But the reason behind including this in the 1990 farm bill is because a number of us recognize the long history that the REC's have in providing utilities. They know how to build them. They know how to run them and manage them. When you talk about water and waste water, those are utilities. So, why not utilize the resources that we have to get that out there? So, I am pleased to see that that is in the compromise being worked out, and I am hopeful that we will be able to fund that.



### REA APPLICATION PROCESS

One other thing, though, and the question I have for you is the need for faster decisions on applications to REA from the co-ops. I hear about this all the time that they make these applications, it takes months, years to get this turnaround time. Have you developed any plans to improve the turnaround time on the applications from the co-ops to REA?

Mr. HUFF. Senator, we have plans and we are working on that. We are aware of the problem, along with communications. We created a task force within REA to deal with input from the trade associations and the co-ops and examine ways that we can streamline loanmaking. This has been ongoing since October, and we are making some definite improvements. We are working very closely with a committee that was appointed by the NRECA and they meet every 2 months. We are paying attention to that. There are a number of things we feel we can do. We have a tendency to review a loan to death, and we are paying attention to that. I think you will see some improvements in that in the near future.

Senator HARKIN. I sure hope so. I appreciate that.

The Farmers Home Administration, Ms. Longino, good to see you.

### YOUNG AND BEGINNING FARMERS

Young and beginning farmers. In Iowa and nationally there is a widespread concern about the few young people beginning farming. So, I am concerned about the efforts of Farmers Home to help young and beginning farmers. As you know, we have a provision in the bill that provides for that.

Now, I don't have the exact figures for Iowa. I am trying to get them. I wish I had them for you, but it is startlingly low how many of these loans actually go to young and beginning farmers. I would like to know what the figures are nationally if you could help me out on that.

Ms. LONGINO. We do not have them with us today, Senator, but we can submit them.

Senator HARKIN. If you would provide that for me, I would like to know how much of your loan portfolio really has gone to the young and beginning farmer program. If it is low, I would like to also have some thoughts from you on how you plan to address that situation. I know it is low in Iowa. I just do not know what it is like in the rest of the country.

[The information follows:]

In fiscal year 1992, Iowa made 289 loans to beginning farmers. Nationwide 8,887 loans were made to beginning farmers. In fiscal year 1992, the total insured and guaranteed farm ownership, farm operating, and credit sale loan obligations totaled 28,761. In Iowa, these loan obligations for fiscal year 1992 totaled 2,561.

### TRAINING FOR FARM BORROWERS

Senator HARKIN. Now, one of the problems here is the 1990 farm bill had a provision in it that directed Farmers Home to provide training in financial and farm management concepts to its borrowers. That was one of the things we wanted to get these young and beginning farmers, to provide the kind of training and manage-



ment, financial dealings, that kind of thing. It is critical for young and beginning farmers. It is important to all farmers, but critical for these young farmers.

I understand that the final regulations have not yet been issued. It is not your doing. I understand that, but I would just point out it has now been 3 years since we passed this bill and we still do not have the regulations. So, I ask to have you look at this and to get the regulations out. If you have any thoughts on that, if you could share those with me on how you plan to carry out this training program and to get it into effect as soon as possible.

Ms. LONGINO. We have submitted regulations for clearance and we are waiting until they are cleared so we can get the regulations out this year. That is what we are hoping for. Also, Farmers Home is in the process of finalizing regulations, to be published mid-summer, to implement the beginning farmer provisions of the Agricultural Credit Improvement Act of 1992. We believe that these regulations will increase the number of beginning farmers receiving FmHA assistance.

Senator HARKIN. So, you have submitted proposed regulations.

Ms. LONGINO. We have submitted some of our regulations. The final regulations are in the process of being drafted. The proposed regulations have already been published.

Senator HARKIN. I appreciate that.

#### CEILING ON DIRECT LOANS

Further, I understand that Farmers Home has a goal of making no more than 20 percent of its operating loan amounts as direct loans. Has someone talked about that yet? I did not want to go over old ground.

Farmers Home has a goal of making no more than 20 percent of its operating loan amounts as direct loans, that is, at least 80 percent of the level of operating loans is to be guaranteed loans rather than direct loans. Yet, the appropriations levels coming out of this subcommittee would support about 37 percent direct loans. That means that appropriated money for direct loans is not used to help farmers, but is left idle.

Again, with a lot of the problems that have come to light about the guaranteed loan program and stuff, why aren't we utilizing the full amounts that we have put in there for the direct loan program? Why have we put this 20 percent cap on if there is one? Is there such a thing?

Ms. LONGINO. Not anymore. That has now been removed. The 20-percent cap has been removed.

Senator HARKIN. Good. So, you will look at the appropriated amounts we have here.

Ms. LONGINO. Yes, sir.

Senator HARKIN. Well, we are making great progress. I won't even ask the other questions here. [Laughter.]

Things are a lot different.

#### ORGANIZATION OF USDA

The Rural Development Administration, Mr. Bennett. First of all, I have several concerns about it I would like to express to you

today. I have had concerns about RDA since its inception, and my basic concern from the beginning until right now is that the move to pull rural development activities out of Farmers Home Administration, along with plans now to incorporate Farmers Home with the Farm Services Agency, because what it seems like we are doing, Mr. Chairman, is we have the Rural Development Administration. We are going to put all these loans out there for business activities and things like that in rural America for rural economic development. Then we have something else for farmers. It is almost like Farmers are not a part of the picture. I submit to you, Mr. Bennett and Mr. Nash, you are not going to have good economic development in rural areas unless you have got a strong farming base out there. That is still the base of the activities out there.

My concern all along is you have RDA off in one direction. You have Farmers Home and everything else off in the other direction. You sort of split the farmers off from rural economic development. So, I urge that we not go too far in dividing up Farmers Home programs forcing them in separate categories, one for farmers, another one strictly for rural development. So, again, I hope we do not see it go any further.

Second, I am concerned about how rural housing—it is not in yours, it stayed in Farmers Home—will be administered if Farmers Home is placed under the Farm Services Agency. How is that going to be handled for rural housing?

Third, I am concerned about the local delivery of rural development services to local communities under the present RDA structure. In particular, I am concerned about the lack of statewide coordination of rural development efforts once the State Farmers Home directors relinquish their current responsibilities to the RDA. We have an infrastructure there of Farmers Home. They are in every county in my State. They know the local populace. In most cases they have good dedicated people working there. They have a statewide network and coordination. RDA does not. So, if we move all this out of Farmers Home to RDA, how are you going to operate in Iowa when you do not have any kind of a statewide network?

These are my concerns that I have. It is not so much of a pointed question, but just some concerns I have about how it is going to operate and what is going to happen to rural housing, for example. I just yield to Ms. Longino or Mr. Bennett for any response to my concerns.

Mr. NASH. Senator, may I respond?

Senator HARKIN. Mr. Nash, absolutely.

Mr. NASH. I think as we look at rural areas, we should understand that farmers cannot be any stronger than the rural communities and rural communities cannot be any stronger than their farmers. So, we have to make sure at USDA that we pay equal attention to both groups because they are in the communities together and they support each other.

We have not decided finally what the organizational structure is going to look like, but I can say that whatever we come up with is not going to divide farming communities and farmers. We cannot have that because they depend upon each other too much.

Point two on the housing program, particularly the single-family housing program: We have to figure out how to deliver single-fam-

ily housing at the county level if it is moved to an RDA. I think what we have to realize is that we have to continue to deliver single-family housing. You really cannot deliver that from the State office of a Farmers Home Administration or RDA. So, we have to figure out some way to make sure that is done.

Community facilities loans, and business and industry loans can be delivered from the State level because they are usually multi-million-dollar projects from larger-size applicants, but individuals need service, and I plan to pay particular attention to make sure that those are delivered.

As it relates to coordination, we have to make sure that it takes place not only at the USDA Federal level, whether it be ASCS, SCS, Farmers Home, but also other agencies in the State like Department of Housing and Urban Development, Department of Commerce, and those offices. We have to do a better job of making sure that we are working together and not stepping over each other. I plan to make sure that happens from our standpoint.

Senator HARKIN. I appreciate that very much, Mr. Nash.

I applaud the move toward the rural development activities. We need to investigate new ways for these small towns to support their economic base and their infrastructure because we have lost a lot of farmers in my State and I am sure all the other ones. But again, to the extent that farmers are carved out of the picture, I have a concern and you have allayed some of those concerns and I appreciate that very much.

Thank you very much, Mr. Chairman.

Senator BUMPERS. Senator Kerrey.

#### DIRECTION OF THE CROP INSURANCE PROGRAM

Senator KERREY. Thank you, Mr. Chairman.

Secretary Nash, I would like to talk a little bit about something I know the Chairman mentioned earlier which is the Federal crop insurance program and the new direction the administration apparently is going with this group risk proposal. I would quote from Ms. Connelly's testimony because I believe in two lines her testimony captures precisely what we ought to be trying to do with crop insurance. She says, "The ability to react to the changing risk environment of the 1990's, to manage risk, will determine which farmers most likely survive and prosper in the 21st century. Risk management tools like crop insurance are tailor-made for this new risk environment."

In your testimony, Mr. Secretary, in describing how the group risk plan is going to work, you say, "Producers select the trigger level as well as the percent of yield and price on which their payment would be based, thus providing them an opportunity to tailor the coverage to their individual needs." However, the next sentence is the revealing one. You say, "However, the payments would be made without regard to an individual producer's production experience."

Mr. Secretary, if that is the case, we are creating essentially a program that is going to provide a benefit to somebody independent of performance. In fact, it seems to me that the group risk proposal is saying that even if I do not suffer a loss, if I have a farm that



is in an area that has been determined to have a sufficient loss, I am going to get paid. Is that correct?

It seems to me that we are moving away from having the individual farmer assessing risk, to an environment where the individual will no longer be managing risk. He will be trying to manage the risk inside of a group according to new rules that the USDA is going to be providing. I am very skeptical, I must say, Mr. Secretary, that this is going to work. Can you provide some insight?

Mr. NASH. Senator, a general response is that we are trying to—the chairman said earlier that no one really seems to be totally satisfied with the crop insurance program and I find that to be true just in my short tenure in learning about it. This new proposal is, in fact, just a pilot, an expanded pilot, but it is one that the administration has proposed.

Senator KERREY. Excuse me, Mr. Secretary. You say in your testimony here that by 1998 the GRP program would be the only plan available. I must say to you if that is the conclusion that USDA has reached and the direction you are going, I would support pulling the plug on the whole thing right now.

Mr. NASH. Well, I meant for 1994 it is an expanded pilot, but there is a plan, if the pilot is successful, by 1998 to go fully to the new proposal. I think we will have to look at it as we go along. If people continue to be dissatisfied with the new approach, we are going to have to try to do something that works. We cannot afford to have it continue like it is.

Senator KERREY. Well, I agree that we cannot afford to continue it like it is, but it seems to me that what you should do is take those areas where it is working and build upon the success. As I said, I think Ms. Connelly's declaration is precisely the environment in which the producers ought to understand they are going to operate.

But as I understand it, you are saying I may not suffer a loss at all and still I am going to get paid. That is hardly what I would call managing the risk. I think I am going to have a difficult time explaining that to taxpayers. I think, as it will, Mr. Secretary, the message is going to go out that this plan is going to be implemented in 1998. I know lenders are not going to be terribly enthusiastic about it.

It seems to me that we are going to be back in a situation where essentially the Government is managing the risk and we will manage the risk according to political considerations rather than market considerations. I frankly think the taxpayers will not stand for it and frankly I do not think it is going to work. I think you picked precisely the wrong direction to suggest this thing ought to go. I genuinely do.

I appreciate that the chairman wants to hold some hearings on this because I think it needs to occur, but I think you have to put the brakes on your proposal. You either put the brakes on this thing or it will reach a point where there is no point of return. You just reach a point where the taxpayers discover that they are paying for losses that frankly have not occurred.

Mr. NASH. Senator, may I let Ms. Connelly make a comment please?

Senator KERREY. Sure.



Ms. CONNELLY. The proposal to have the area yield program in effect by 1998 nationwide is one that is a proposal. It is on the street and we are proposing to deal with it. It is, however, an expansion, a very rapid expansion, of one pilot in the country. We are proposing at FCIC to expand that to 700 or 800 more counties, a few more crops to see if it will work, but we are proposing to do that with a simultaneous individual offer. We believe very fully in risk management, that farmers must manage their risk, and we need to target the proper insurance product toward each kind of farmer. The farmer whose production is right on the county average is not going to do badly with group risk, but other farmers may not do very well. It is not individual coverage. It will not provide collateral, as we understand it, at this point in time. If you are heavily leveraged, it may not provide what you need. So, there will at this point still be an alternative offer and, in fact, we believe an improved offer of what has been in the past. Given some time we will be able to see how this pilot performs and see if it produces the reduction in payments which this proposal is seeking.

Senator KERREY. But again, with respect, is USDA saying we have tried a pilot in one county. We do not have demand in 700 counties to do this? Are you proposing from—

Ms. CONNELLY. From 96 counties—

Senator KERREY. To 700 counties.

Ms. CONNELLY. To about 700 counties. That is right.

Senator KERREY. Where is the demand coming from? Have the counties that you have targeted in Nebraska, for example, indicated that they think this is going to be terrific and want to try it?

Ms. CONNELLY. We have selected those counties that have a loss ratio that is above 1.4, those counties that have at least 15,000 acres of that crop, those counties that have contiguous acres of the same crop so that we will have a wide enough data base to make sure that the plan is actuarially sound. We do not know yet what the participation rate will be. There will be this other offer so that the farmers will have a choice to make, and that is part of the test to see what kind of choice they want to make.

Senator KERREY. Well, I think if you have a proposal out there that allows someone to be paid even though they have not suffered a loss—as I understand it, that is what the proposal will do.

Ms. CONNELLY. And vice versa.

Senator KERREY. And not to be paid if they have suffered a loss. In other words, I can suffer a loss, but the area has not been declared a disaster, so I do not get paid. I can suffer no loss, but because the area has been declared a disaster, I do get paid. That is essentially what you are saying.

Ms. CONNELLY. It is possible, yes.

Senator BUMPERS. Senator Kerrey, would you yield?

Senator KERREY. Yes.

Senator BUMPERS. It is not necessary for a disaster declaration for crop insurance to kick in, is it?

Ms. CONNELLY. I am very sorry. I am having difficulty hearing you, sir.

Senator BUMPERS. Let me ask you again. It is not necessary for an area to be declared a disaster in order for crop insurance to kick in.

Ms. CONNELLY. No, it is not. Absolutely not.

Senator KERREY. But under the areawide proposal, the area would have to qualify.

Ms. CONNELLY. The area would have to qualify, and what we have done is look at 30 years of data. We have looked at those county crop programs—as you recall, the proposal that is before us that we have to deal with is requesting that we reduce our loss ratio to 1.1 nationwide and that we meet certain cost savings and to go to an area yield plan nationwide. We cannot go to an area yield plan nationwide, and we are not even certain that it will be what is wanted, or desired.

So, what we have done is we have looked at all the county crop programs, looked at all of those with a loss ratio of 1.4 and above, looked at all of those county crop programs that have sufficient data, that is, are big enough, enough acreage, to give us a wide base of data to see if they are sufficient grounds for this pilot, to see if it, in effect, works.

Senator KERREY. Senator Bumpers question was do we have to have area damage before it would kick in. The answer is that the county does have to suffer a certain threshold damage before the individual producer is determined to be eligible.

Ms. CONNELLY. It would not have to be a disaster. It would be below the county yield.

Senator KERREY. You qualify the county in order to qualify the individual.

Ms. CONNELLY. That is right.

Senator KERREY. So under areawide it is possible—indeed, I would say that it is likely if you are going to have 700 counties out there—that you will have many situations where if I am producing, I am saying, well, do I buy this product or not. First of all, if the bank does not recognize it as collateral, it is unlikely that I am going to have that as an incentive. But I am sitting there saying now if I buy this product and my county does not qualify, it does not do me any good. I can get wiped out. I am not really managing my individual risk.

Ms. CONNELLY. I do not have control over my own risk management.

Senator KERREY. Right.

Ms. CONNELLY. Or I have very little control, not as much control as the individual offer would. That is exactly right.

But with the alternate choice that we are working on and, as I alluded to earlier, we are trying to come up with a product that will allow the flexibility that will get us through this crop year until the numbers are resolved. The alternate product would be improved. It would be much more based on actual production history. So, those farmers who really are intent on managing their risk will have a very good product to purchase.

Senator KERREY. Well, I must say, not ignoring the fact that we have just seen Senators tie up Under Secretaries' nominations so that they could get their various crops designated as eligible for disaster payments, I just believe very strongly that we have got to

say, and that, indeed, we should have said to these Senators, if you want to stand on the floor and ask for a special subsidy for your particular producers, that goes against the U.S. Government's policy. I think we send a message out every time we put one of those special programs out to the producer. That message is: Don't buy it because all you have to do is get your Senator to go down in the well and put a hold on somebody's nomination and you can get 50 million bucks. That is a pretty easy transaction. That is better than being on the Appropriations Committee. [Laughter.]

Ms. CONNELLY. I think I will defer to Mr. Huff's tack there and say I would just as soon not comment on that one. [Laughter.]

Senator KERREY. Well, it is not necessary to comment on it. I just think I would put in large letters on the wall your excellent two sentences and say to the producers of America this is how you should guide your risk management. Don't sit out there and say if my yield is less than what it ought to be, I had an unexpected disaster, and I did not buy crop insurance, I will call Senator Kerrey and maybe he can put a hold on a nomination too or maybe he can work some special deal and get some money to pay for my loss. Unless we have a consistent message out there to the producer, we are not going to give them incentive to look to crop insurance.

I, by the way, think the private people out there who are selling the product need to come to the table as well. I think they are prepared to do that in order to get this loss ratio down to 1.1.

The problem that I have with the GRP proposal is that it tends to be in the category of saying to the producer you may have an opportunity to get paid regardless of whether or not you suffered a loss and regardless of whether or not you have done a good job of assessing your risk and trying to manage it. I just think that is a very unfortunate thing and a big mistake for the Government of the United States to be saying that to producers because I just could not agree more with you. I think in order for the producer to survive in the 21st century, that capacity to manage risk in a very unpredictable market in a very unpredictable time will determine who survives, and that ought to determine who survives, rather than who has the ability to influence the Federal Government to pass one more thing out.

Ms. CONNELLY. If you don't mind, I would just like to add to that, that there are positive points to the GRP program for specific crops and specific situations. I think what needs to be studied and we intend to study further within the bounds of this proposal is what are the best products to offer different kinds of farmers in different situations of different kinds of crops. One product may not meet everyone's needs.

Senator KERREY. Yes; I do not object at all to continuation of the pilot and the GRP examining it closely and figuring out where it works. If it works, terrific. Let it roll. But what strikes fear into my heart is the idea that we are going to rush quickly to paint the whole house. That is particularly true since there appears to be some elements of GRP that are at odds with what I think we should be saying to the one-half of a million full-time producers out there in the country.

Ms. CONNELLY. Thank you.

Senator KERREY. Thank you, Mr. Chairman.



Senator BUMPERS. Thank you very much, Senator Kerrey.

We have with us this afternoon an interloper from Alaska who is not a member of this committee, but through my good offices and good grace and generosity, I have allowed him to come over here and tell us that the honey buckets in Alaska are leaking. Senator Stevens.

Senator STEVENS. As a matter of fact, some of them are nonexistent, but I did want to take the occasion to thank you for your courtesy.

We have in Alaska, according to EPA, 74 percent of the Nation's Indian and Native needs as far as waste water is concerned in our villages. Of these 210 of our Native villages, 132 totally lack any form of water or sewage systems, and they are villages of 300 or more people usually. We formed the Alaska sanitation task force, and I am here, as the chairman says, as a member of the full committee, but asking, as I have asked the full committee, for your consideration of working with the EPA and other Federal agencies to see if we can find some way to deal with these problems.

We currently have an epidemic. I do not know if you heard about it, the hepatitis A outbreak, in Alaska which has killed four children so far this year. We have impetigo breaking out now that is very bad. It is totally coming now we believe because of the lack of sanitation in these areas.

Our State is asking your agency to participate although there is absolutely no income from the areas, obviously. They are people who live on Native lands.

We do have a State budget to try to meet one-half the costs of a program to extend sanitation facilities to these villages, but it will take the cooperation of RDA as well as EPA I think. Your national grant program for 1993 was \$390 million. Of that we got for our State as a whole .02 percent of the money notwithstanding the fact that we have 74 percent of the Indian needs of the country. I really am here to plead with you to join hands, really to ask the question isn't there some way that we can make this RDA program more applicable to the areas of great need in the country?

Let me show you some of that need. The chairman has seen this before, and I know that the chairman's staff, Mr. Fountain, has been to Alaska recently. This is what we call a community sewage bunker. You have to remember this is an area that deals with 100 degrees in the summertime and 65 degrees below in the wintertime.

The next one is a wintertime concept. That is Quinhagak with their bunkers frozen shut and they are trying to deal with them during that period.

A similar one is the third one, a lagoon. The spring came and with it the thaw. Those bags are floating around and they are soon to go downstream. They are garbage bags that contain human sewage that will contaminate the area.

This is a good picture. It is of children playing in the lagoon in the springtime where the bunker has overflowed.

A similar one, No. 5 here, is a sewage lagoon that has totally been filled up. That boat you see in the background is out there fishing for the fish that have come in. They really have no way to dispose of this sewage.



In days gone by before the days of the garbage bags, they were just literally taken out and dumped on the ice and when the spring came, the ice would carry one village's human refuse down to the next one for drinking water and washing water in the spring.

No. 6 is a typical honey bucket bunker. Some people say, well, how does that happen. Some places are overrun with bears and other animals that get in, as you have seen them in the dumpsters around other places. They come into these villages and just tear the devil out of them.

I think No. 7 is another bunker. That was just totally devastated primarily because it overflowed and animals got to it.

I think this last one is the one that really gets me, though. That is a woman just as the spring came still hauling bags to a honey bucket, but she is going over the gravel with a sled. That is the only means of transportation, of course, up there. When the summertime comes, it is very difficult to even get to the bunker.

Those are not pretty. I showed them to the full committee once and some people did not like it too much.

We have again \$390 million. We are not asking for a lot of money. What we are planning is to try to see if we can get a Federal/State program with a set of goals to totally eliminate this problem in 10 years. I would urge you to see if you and your people can form some sort of a group that will work with EPA and we can get a Federal task force to work with our State task force.

I have traveled to almost every place in the world now as a Senator. I have never seen a water and sewer situation as bad as it is in our Eskimo country in particular, but the Native country in general.

Could we make a special effort to see if we can get some sort of a task force, Mr. Nash, Mr. Bennett, out of the RDA fund and get some increase in contribution? It is going to take more than \$618,000 a year.

Mr. NASH. Senator, the pictures are very graphic, and I can personally appreciate the need for water and sewer. I grew up in a house without running water and sewer. One of the happiest days of my life is when we got running water and sewer.

Senator STEVENS. You do not look that old. I did that too.

Mr. NASH. It was truly an important day for us.

I think the answer is, yes, we will do that. Secretary Espy, when he first brought me on board, talked about his priorities, and one is water and sewer. He believes that every human being needs to have adequate water and sewer. That should not be the case anywhere in our great country. Yes; we will work with you.

Senator STEVENS. Let me interrupt you just a minute. One of the highest costs for medical care in the country is in that area, primarily growing out of all of the diseases that are carried by fouled water and by the conditions that we have just seen. Many of these children have inner ear infections at a very early time. They have all kinds of rashes. They have bacteria and they have the various types of salmonella diseases that don't come from salmon. I hasten to add that.

But I did interrupt you and I apologize. I want to see if I can get a commitment that you will authorize some of your people to work with Ms. Browner's people at EPA. I think we have a similar

commitment already from them and see if we can't get a task force from here working with a task force in Alaska. The Department of Environmental Conservation of the State under Mr. Sandor, who worked for years for the Forest Service in Alaska, is heading up this project in Alaska, but I think it is going to take a joint task force to accomplish this and to get some agreement. I think if it is stretched out, it is not going to take that much more money, but it is going to take more money than has been made available in the past to deal with the issues.

Mr. NASH. Senator, we will do that. We will work with EPA and the Alaska Department of Environmental Conservation. We will do it.

Senator STEVENS. We would invite you to come up and bring your people and travel to some of those areas and see first hand. They are wonderful people, but they have horrible living conditions.

Mr. NASH. I will do that also.

Senator STEVENS. Thank you very much.

Thank you, Mr. Chairman.

Senator BUMPERS. Senator Stevens, just for my own edification and maybe that of the audience, I think the North Slope financed a sewer system for Barrow. Do you remember what the cost of that was?

Senator STEVENS. I remember one young man figured out it cost \$17 every time the toilet flushed, though. I do remember that. I don't remember the total cost.

Senator BUMPERS. I think it was well over \$100 million.

Senator STEVENS. We are not asking for that kind of total system.

Senator BUMPERS. What do you have in mind?

Senator STEVENS. We have in mind innovative concepts of providing fresh water and sewage disposal where the population is large enough to have a normal system, to have what we would call safe water facilities in every village and have some concept of people trained to maintain the sanitation and maintain the purity of the water supply and probably some form of house-to-house delivery of fresh water and pickup of this stuff rather than have it spread all over the area by people who are trying to be sanitation conscious, but not having the capability of doing it.

I think there are some unique systems, Mr. Chairman, that have come out of some of the studies, new technology that we use on boats, for instance. We burn human sewage on a boat with electricity. Many of these villages have electricity now, but they do not have sewage disposal nor fresh water.

Senator BUMPERS. Well, you certainly make a very eloquent plea, and it is one that I am sure, knowing Secretary Nash as I do, you will get a response.

Senator STEVENS. Thank you very much and thank you, Mr. Chairman.

#### RURAL HOMELESSNESS ACT

Senator BUMPERS. Thank you, Senator Stevens.

Just a couple of quick questions. Last year I got a bill through here called the Rural Homelessness Act. Have you had an opportunity to familiarize yourself with that, Ms. Longino?

Ms. LONGINO. Yes, sir; I am familiar with the Rural Homeless Act. As a matter of fact, we recently put forth a directive to our State directors to be more aggressive in providing inventory property to nonprofits to house the homeless. I will be revisiting their efforts at the end of June. I will see how active we are in getting inventory property that can be used for the homeless to the nonprofits and I will work with State directors to get people in housing rather than maintaining and boarding up housing.

Senator BUMPERS. Well, you anticipated my question. That is precisely what I wanted to ask you. I would like to know what the results of that are.

Ms. LONGINO. Yes, sir; I would be happy to provide you with that.

#### SINGLE-FAMILY HOUSING

Senator BUMPERS. Finally, on 502 housing, 502 is the single-family housing project.

Ms. LONGINO. Yes, sir.

Senator BUMPERS. In my little hometown up in western Arkansas, I bet 25 percent of the people live in 502 housing. But I was a little shocked in looking at the documentation here that you have a 15-percent delinquency rate in that program which seems a little high to me. I am not sure, but I think I am looking at \$45,543,000 in delinquencies. Does that sound right?

Ms. LONGINO. The actual nationwide delinquency rate is 12.3 percent, totaling \$182 million.

Senator BUMPERS. Now, anyway it is a good program. How many units do you have empty right now? Do you know the answer to that?

Ms. LONGINO. We have about 4,200 nationwide.

Senator BUMPERS. Out of how many?

Ms. LONGINO. 661,000.

Senator BUMPERS. That does not sound like so much in light of 661,000 units, but I tell you that is a program I heartily champion. For rural America it is a great program.

#### HOUSING FOR RURAL ELDERLY

Now, do you have a multifamily housing program for the elderly?

Ms. LONGINO. Our 515 units can be designed for the elderly or families, or for mixed use. Also, Mr. Chairman, we have the congregate housing for the elderly and the handicapped.

#### HOME REPAIR LOANS AND GRANTS

Senator BUMPERS. What is the 504 program?

Ms. LONGINO. The section 504 program is our program for housing repairs. We have the 504 grant program that will provide a grant for homeowner repair for the elderly. We also provide loans with the interest rate at 1 percent.

Senator BUMPERS. This program for the elderly, is that where they pay a certain percentage of their income? That is not a loan program, is it?

Ms. LONGINO. We do have a 504 loan program. We have a 504 grant program as well. They can be used in conjunction with each other.

Senator BUMPERS. Do you have a program that is sort of similar to the HUD 202 program for the elderly where you build—it is not condominiums, but like townhouses that join each other and the elderly pay a percentage of their income to live there?

Ms. LONGINO. That is the 515.

Senator BUMPERS. Is that the 515?

Ms. LONGINO. Right, and tenants pay up to 30 percent of their incomes for rent.

Senator BUMPERS. Now, you have a delinquency rate of 3 percent. Is that correct?

Ms. LONGINO. On our 515 program, yes, sir.

Senator BUMPERS. Is that right?

Ms. LONGINO. Yes, sir.

Senator BUMPERS. Well, that is not a bad record.

We have several questions that I will submit to you in writing.

Ms. Connelly, I still want to possibly hold a hearing on crop insurance. It would not be very long, but I think it would be helpful to all the members.

Bob, thank you and thank all of you very much for being here.

#### SUBMITTED QUESTIONS

Thank you for your testimony. Additional questions will be submitted for written answers and we ask that you respond to them within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]



## FARM SERVICE AGENCY

## QUESTIONS SUBMITTED BY SENATOR BUMPERS

Question. Last year, Secretary Madigan proposed reorganizing the Department, but did not expect any immediate savings. Your budget also proposes reorganizing, but generates considerable savings the first year.

How specifically do you expect to achieve the \$59 million in savings by creating the Farm Service Agency?

Answer. An outlay savings of \$59 million is projected in the President's budget request through the creation of a Farm Service Agency. This savings projection is based on an across-the-board savings target assigned to each of the three agencies which are proposed for incorporation in a Farm Service Agency. We do not have specific proposals for achieving the savings; but expect the savings to be achieved through reductions in staff, administrative costs and other expenses.

Question. Will the savings be attributed to RIFs or just through attrition? What is the timetable for such savings?

Answer. Our plan is to achieve the savings through attrition which is expected to occur at a somewhat higher rate than normal as a result of the relocations and other changes related to the formation of a new agency. The timetable for the savings is stated in the budget. A \$59 million outlay savings is scheduled for fiscal year 1994 with a total of \$723 million scheduled to be saved between 1994 and 1997.

Question. The fiscal year 1994 budget proposes to consolidate the Soil Conservation Service, the Agricultural Stabilization and Conservation Service, along with the Farmers Home Administration, into a new Farm Service Agency. The fiscal year 1994 budget reflects savings of \$61 million resulting from this consolidation. I understand that this savings results from reductions in staff-year requirements. Is this correct?

Answer. The savings are primarily the result of staff-year reductions. However, it is also expected that savings will also be achieved through reductions in operation and maintenance costs for the three agencies in terms of space requirements, equipment purchases, supplies, and many other administrative costs or other expenses.

Question. Although I understand that the new Farm Service Agency is still in the planning stages, what staff-year reductions are assumed in the fiscal year 1994 budget for both ASCS and SCS? Please indicate both the headquarters and county office staff year

reductions proposed as compared to the current FY 93 ASCS and SCS staffing levels. How will these proposed reductions in staff years be achieved?

Answer. Separate staff-year ceilings were not established for ASCS and SCS for 1994. One consolidated ceiling is reflected for the Farm Service Agency. Headquarters staffing for the Farm Service Agency would decrease from 1,918 in 1993 to 1,840 in 1994. Field office staffing would decrease from 27,659 in 1993 to 26,341 in 1994. Staff years from ASCS county offices would also decrease from 15,476 in 1993 to 14,746 in 1994. We assume that all these reductions will be achieved through attrition.

Question. How will the formation of a new Farm Service Agency to carryout the farm and conservation programs of ASCS and SCS result in improved service to farmers?

Answer. While we are at the early stage of planning for the Farm Service Agency, we see potential service improvements in the following areas. First, there will be a common management structure in Washington and in the States that should result in more coordinated services to farmers. Second, while there will be fewer field offices, the offices in the new agency will be larger, offer a wider range of program services, and with modern equipment offer services not now available such as farm planning and recordkeeping. Third, a single agency will facilitate coordination of commodity, conservation and farm lending programs. We will be able to resolve problems at the lower levels and integrate commodity and conservation factors into decisionmaking at all levels. Fourth, the new agency will enable us to move towards a common appeals system. Finally, a single agency will facilitate the design, procurement, and management of a common computer system and development of a common set of data requirements to reduce paperwork for the clientele and to more efficiently process program applications and services.

Question. The Department indicates that planning for the new Farm Service Agency is underway and its detailed structure has not been formulated. When will this proposal be finalized?

Answer. We are looking at the total headquarters structure, along with plans for restructuring field services. Once a number of appointees for the Department are confirmed, I will enlist their assistance in designing a final plan for the headquarters and reach a decision as to whether modifications to the proposed programmatic structure of the Farm Service Agency are appropriate. I expect to have a plan in place by this Fall.

## FARMERS HOME ADMINISTRATION

## QUESTIONS SUBMITTED BY SENATOR BUMPERS

## RENTAL ASSISTANCE

Question. Last year, this Committee did its best to provide adequate rental assistance to cover expiring contracts, servicing of existing units, as well as covering new construction. While the funding was reduced somewhat from the Senate provision, even the estimates we received from the Department were off.

How many of each of these three categories for which rental assistance is used will your budget request cover?

Answer. For FY 1994, we are requesting the following levels of rental assistance units; 22,870 for renewals, 9,804 for new construction, 1,137 for servicing troubled projects and 487 for preservation activities.

Question. The budget requests \$75 million for rural housing vouchers for Fiscal Year 1994. Some 80,000 residents of Section 515 have rent-overburden -- that is, they are paying more than 30 percent of income for rent.

Will these families receive assistance through vouchers?

Answer. Some of these families would surely be assisted through a rural housing voucher program as we envision it. The object of the program is to assure housing affordability with existing, decent, rental units. Where Section 515 units comprise the decent, available housing that needs to be made affordable, vouchers can be used.

Question. How many existing units will your housing voucher proposal cover?

Answer. The \$75 million will provide assistance for an estimated 3,750 eligible families or persons. However, we do not intend housing voucher use to be limited to Section 515 existing units. An equally important use is making other rental units affordable in communities in lieu of the more costly new construction of Section 515. Also, housing vouchers may be needed to assure the affordability of rental units rehabilitated under the Section 533 Housing Preservation Grants; that aspect of the program would begin in FY 1994.

Question. I understand that the dollar value of expiring rental assistance contracts increases quite rapidly in the next few years. Could you provide details on the funding requirements for the next five years and what plans the Administration has to deal with this increase?

Answer. The details you request are provided below. FmHA will request funds to replace the rental assistance units anticipated to expire over the next five years.

## RENTAL ASSISTANCE RENEWAL NEEDS

FISCAL YEAR	ANTICIPATED EXPIRATIONS	UNIT VALUE	TOTAL
1994	22,870	\$12,617	\$288,544,000
1995	26,467	12,945	342,615,315
1996	29,240	13,269	387,985,560
1997	29,735	13,601	404,425,735
1998	38,843	13,941	541,510,263

The 1994 estimate is a prediction based on actual contract use. The potential for rent increases and changes in utility costs, taxes and tenant incomes reduce the reliability of these projections into future years. Consequently, 1995 through 1998 figures are based on the scheduled expiration of contracts entered into five years earlier during 1990 through 1993. We will consider the projected renewal needs, as they evolve, in developing future appropriation requests.

## HOUSING PROGRAMS

Question. I understand that plans for the new Farm Service Agency are not finalized and that a plan is under consideration to transfer the rural housing programs administered by the Farmers Home Administration (FmHA) to the Rural Development Administration (RDA). The 1992 Housing Act included a provision prohibiting the transfer of rural housing programs authorized under Title V of the Housing Act of 1949 to the RDA. However, the committee is willing to work with you to come up with the best way to provide housing assistance. A chief concern in transferring programs to RDA, is the delivery system. FmHA has an extensive field structure through which single family housing programs are delivered. Currently, RDA has only regional offices.

If RDA administers rural housing programs, what will be the delivery system for rural housing?

Answer. If RDA administers rural housing programs, an adequate organization will be provided so that the rural housing programs will be efficiently delivered to the public. This will include loan making and loan servicing capabilities, as well as the capacity for handling defaulted loans. This will require the ability to reach into the rural communities for these functions with some form of local office system. What that organization will be called, and the locations and number of offices necessary to administer the rural housing programs will be included in the plans for reorganization.

Question. Is there a schedule for reorganization?

Answer. No schedule has been released for the completion of the reorganization, however, discussions and planning continues.

Question. Do you anticipate that RDA will implement a state office system similar to that of FmHA?

Answer. The RDA organization will be adequate to complete the mission and assignments given to RDA. The FmHA field office system is a key element in the discussions on reorganization and the future delivery of RDA and RH services.



### LOAN ALLOCATIONS

Question. The appropriations bill for this year stipulates that you are to allocate all the funds to States in the first two quarters of the year. Have you done that for all of the loans under the Agricultural Credit Insurance Fund?

Answer. All loan funds from the Agricultural Credit Insurance fund were allocated to the States in the first two quarters of fiscal year 1993 with the exception of three programs. Due to the limited funding in the Indian land acquisition loan program the FmHA National Office retained control of the funds and individual state funding requests as the loans were approved. The direct and guaranteed soil and water programs and the emergency disaster loan program were each held as one large loan fund with each state having direct access to the entire allocation. This operated as if the money was allocated to the state.

Question. Are you holding any reserve in Washington for any loan program?

Answer. Yes Sir. We are currently holding national office reserves for pooled guaranteed farm ownership and guaranteed farm operating loan funds.

Question. Do you plan to pool any of these funds this year. If so, for which programs, and when?

Answer. Guaranteed farm ownership and subsidized seven year guaranteed operating funds were pooled in April. We anticipate pooling direct farm ownership and all guaranteed operating funds and to re-pool guaranteed farm ownership funds in July.

Question. Is it true that you also allocated all of the section 502 guarantee funds in the first two quarters? If so, why?

Answer. The previous Administration made all of the funds for Section 502 Guaranteed loans available in the first quarter of the fiscal year.

### SECTION 515

Question. There are anecdotes and I believe even a letter from the former Administrator stated that in some areas we are building new Section 515 units when there are vacant units in the same place. Is this true and how widespread is it?

Answer. It has always been our policy to develop new units only in areas where there is a need for housing. In a limited number of cases, market studies have reflected a need for additional subsidized housing even though there may have been vacant units in the market area. We appreciate and share your concern and are actively promulgating regulations to address this issue.

Question. Isn't there a method of allocating the funds so that this doesn't happen?

Answer. As I have previously mentioned, FmHA has already developed new regulations to address this situation. The regulations will preclude development of new units in areas where there are vacant FmHA or HUD units, or the need exists for affordable but not additional units. These regulations are in the final stages of Departmental clearance and will be forwarded to the Office of Management and Budget for review prior to publication in the Federal Register as a Final Rule. We expect publication in time for use in the program during next fiscal year.

#### PRESERVATION GRANT PROGRAM

Question. The 1983 Housing Act authorized the Housing Preservation Grant program. The program provides rehabilitation assistance to single and multi-family units in rural areas. Although the program has been in existence for several years, FmHA has yet to issue final regulations for multi-family rehabilitation. Why is this, and when will you get the regulations moving?

Answer. I'm pleased to advise you that the final regulations were published on April 26, 1993, and will take effect September 1, in time for next fiscal year's funding.

#### HOUSING REAUTHORIZATION

Question. As part of the 1992 Housing and Community Development Act, a number of changes were made in the section 515 program. These include modifications to the non-profit set aside program as well as improvements in identity of interests, coordination with the Comprehensive Housing Affordability Service and independent cost certifications. Can you provide the Subcommittee with a schedule for implementation of these changes?

Answer. The regulation regarding changes to the non-profit set-aside program have been developed and are in the final stages of Departmental clearance. The regulations will be forwarded to the Office of Management and Budget shortly for review prior to publication in the Federal Register as an Interim Final Rule. We expect publication in time for use in the program during next fiscal year.

The regulation regarding identity of interests and independent cost certifications is in Agency clearance. We anticipate publication of the Final Rule in approximately 6 months. We are currently developing regulations regarding Comprehensive Housing Affordability Service, and expect publication of a proposed rule in approximately 6 months.

#### STATE MEDIATION GRANTS

Question. Please provide a list of state mediation grants for 1992 and 1993 and the amount per state.

Answer. The following information is provided for the record.

## STATE MEDIATION GRANTS

STATE	1992	1993
Alabama	\$143,402	\$171,433
Arkansas	82,500	82,500
Arizona	17,590	53,260
Indiana	39,140	76,480
Iowa	235,800	194,800
Kansas	425,378	387,769
Minnesota	300,000	300,000
Montana	10,000	0
Nebraska	140,890	157,750
New Mexico	61,000	61,000
North Dakota	387,078	389,098
Nevada	5,000	5,000
Oklahoma	170,000	153,900
Oregon	58,010	52,000
South Dakota	48,850	45,980
Texas	413,110	454,421
Utah	10,000	15,000
Wisconsin	122,300	176,200
Wyoming	40,000	20,000
Total	2,710,048	2,796,591

## SUPERVISORY AND TECHNICAL ASSISTANCE GRANTS

Question. A total of \$2.5 million was appropriated for sections 525 and 509. What is the status of this program?

Answer. The regulations to implement this program were delayed in the previous Administration's regulatory review initiatives/moratorium. The final rule is now in the clearance process within the Agency and we anticipate the final rule will be published before the end of fiscal year 1993.

## SECTION 515

Question. What is the backlog for rural rental housing loans?

Answer. Our last survey conducted January 11, 1993, indicated the following demand for rural rental housing assistance:

## Section 515 Loan Applications and Preapplications

Number of Applications in Process	488
Dollar Amount of Applications	\$464 million
Number of Preapplications in Process	1,181
Dollar Amount of Preapplications	\$1.336 billion

## PRESERVATION GRANTS

Question. Please provide the number and dollar amount of rural housing preservation grants requests for 1992.

Answer. In fiscal year 1992, FmHA received 424 preapplications requesting \$57,181,488, and proposing to assist 10,813 very low- and low-income homeowners to bring their homes up to code and thermal standards.

## QUESTIONS SUBMITTED BY SENATOR HARKIN

### PREFERENCES FOR FORECLOSURES

Question. I have heard complaints that FmHA is too eager to pursue foreclosure sales instead of reaching compromises through which land would be taken back into FmHA inventory under a voluntary arrangement. Avoiding foreclosure could save money for the borrower and FmHA, not to mention the hardship and trauma of a foreclosure sale. In fact, it has been suggested to me that if land was taken back into FmHA inventory, rather than go through a contested foreclosure, the number of FmHA cases under appeal could be cut in half. That would save a lot of money and a lot of grief.

Also, by taking land into FmHA inventory there would be an opportunity for the previous owner to lease or buy back the land or for the land to go to another FmHA borrower, rather than just be sold to the highest bidder.

I understand that FmHA has had a specific policy favoring foreclosure sales over voluntary transfers of land into FmHA inventory. What is that policy?

Answer. FmHA has no such policy which states that foreclosures will be favored over voluntary conveyances. FmHA's loan servicing program is a linear process whereby all options must be considered in the order set forth in the statute. In certain cases, FmHA cannot accept voluntary conveyances if there are judgements or other liens which cloud the title of the property serving as security. In these cases, foreclosure is the only method by which FmHA can secure clear title to the property.

Question. Will you be taking another look at that policy to see whether it can be changed?

Answer. Since FmHA has no such policy, there is nothing to review. During fiscal year 1993 to date, FmHA has accepted 92 voluntary conveyances compared with 71 foreclosures. This is a clear indication that FmHA utilizes the voluntary conveyance program whenever allowed.

### SALES OF INVENTORY PROPERTIES

Question. I understand the President's budget requests \$149 million for credit sales of FmHA inventory property. As I mentioned earlier, these inventory properties represent a very important opportunity for young, beginning and minority farmers. What number of farms and total acreage is now in FmHA inventory?

Answer. FmHA currently has 2,979 inventory farm properties comprised of 795,556 acres.

Question. How many inventory properties have been sold to date in FY 93, and how many are expected to be sold by the end of the fiscal year?

Answer. FmHA has sold 675 inventory farm properties to date in fiscal year 1993. It is estimated that another 340 inventory properties will be sold before the end of the fiscal year.



Question. How many farms, and what percentage of FY 93 inventory sales have been made to beginning farmers or to socially disadvantaged farmers?

Answer. There have been 18 inventory farm properties sold to socially disadvantaged farmers in fiscal year 1993 to date. No data is available to indicate how many sales have occurred to beginning farmers.

Question. How many sales of inventory properties are expected in FY 1994 under the proposed funding level?

Answer. FmHA estimates that 1,080 inventory farm properties will be sold during fiscal year 1994. Some of these farm properties, especially surplus units, will be sold for cash on a sealed bid or auction basis.

Question. What steps is FmHA taking advertise the availability of inventory properties, and at what times of the year are the properties advertised?

Answer. All of FmHA's inventory farm properties are advertised for sale by publishing, as a minimum, three consecutive weekly announcements at least twice annually, in at least one newspaper that is widely circulated in the county in which the farm is located. Also, FmHA will post sale posters in the county office to advertise inventory properties. Properties are advertised as they become available for sale and as often as necessary to dispose of them.

Question. How much inventory land is being leased with an option to purchase? How much is being leased to beginning farmers and to socially-disadvantaged farmers?

Answer. Since the beginning of fiscal year 1991, FmHA has leased 719 inventory farm properties under the leaseback/buyback program. All leaseback/buyback agreements contain an option to purchase. Also, FmHA recently issued an Administrative notice to encourage the use of leases containing an option to purchase when leasing properties outside of the leaseback/buyback program. This administrative notice also instructed FmHA's field offices to provide socially disadvantaged and beginning farmers with a preference when leasing inventory farm properties. Since this administrative notice was just recently issued, there is no data available to show how many properties have been leased to socially disadvantaged and beginning farmers.

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## QUESTIONS SUBMITTED BY SENATOR KOHL

Question. Mr. Nash, my office has received a number of complaints recently from potential FmHA borrowers, as well as bankers and home builders, regarding the FmHA moderate-income guaranteed home loan program. The problem that they are facing is that many potential borrowers have gone all the way through the loan process only to find that the money for the FmHA guarantee program was gone. In some cases, the borrowers were within weeks of a closing date on a house or lot on which they were to build when they were told at the last minute that they had to wait until next year.

I've been told that in April, \$7 million that had been earlier allocated to Wisconsin to service the loans was taken away from Wisconsin and redistributed. We all know that the home loan application process is grueling. It seems almost cruel to let folks go all that way through the process only to learn that there's no money. What was the rationale for removing that money from Wisconsin, and leaving these borrowers standing at the altar?

Answer. Under the Guaranteed Rural Housing regulations lenders are required to submit a request to FmHA to review a borrower's eligibility for the program before the loan can be approved. Also, the National Office repeatedly advised its field offices to assure funds were available before notification was made to the lender of the approval of the request for a loan guarantee.

This year's program was operated without regard to state allocations as long as funds were available. All funds were made available during the first quarter of the fiscal year. FmHA State Offices were notified in writing on February 4, 1993, that the Agency planned to continue operation of the program on a nationwide basis and that funds were not expected to last until the end of the fiscal year. On April 8, 1993, the National Office advised State Offices that funds were not expected to last through April. It was emphasized at that time that it was important to assure that funds were successfully obligated before issuance of a conditional commitment.

With regard to the \$7 million you mentioned, Wisconsin's initial allocation was \$7,340,000. The State actually obligated \$10,823,605 or 147.5 percent of their allocation. As the fiscal year progressed, States requested and were granted access to additional funds as long as funds were available nationwide. There was no guarantee that the funds would be available for any particular length of time.

Question. In April of 1992, FmHA published Interim regulations for debt restructuring. Since that time FmHA has received many comments from farm advocacy groups and others. Will FmHA be issuing new regulations based on those comments, and if so when?

Answer. FmHA Instruction 1951-S, which governs loan servicing, is being revised based on the Food, Agriculture, Conservation, and Trade Act of 1990 and all comments received. We anticipate it will be published in final form by January 1994.

Question. I would like to commend the Secretary for his decision to suspend FmHA farm foreclosures, and providing farmers with the opportunity to have their cases individually reviewed. Of the notices sent to borrowers offering them the opportunity for this one time credit review, how many have responded? Has information been sent to borrowers describing the types of situations that would make them eligible for a review?

Answer. As of May 25, 1993, 857 borrowers have requested a review. A letter has not gone to all borrowers. Only those who were in imminent danger of foreclosure have received the Secretary's letter offering a review. These borrowers have been advised that if for any reason they feel they were not treated fairly, they may request a review.

## QUESTIONS SUBMITTED BY SENATOR COCHRAN

### FmHA RENTAL ASSISTANCE

**Question.** There appears to be a critical need for additional rental assistance in my State of Mississippi. I am informed by the Mississippi Farmers Home Administration office that of the 15,643 apartment units financed in the State, there are presently 4,697 families living in these apartment units paying over 30% of their income for housing and utilities. In addition, there are presently 716 apartments vacant, mostly due to the fact that very low and low-income tenants cannot afford to pay the rents required without rental assistance. Also, most of the complexes that do not have full rental assistance are in financial trouble because of the high vacancy rates they are experiencing. Approximately 5,400 rental assistance units are estimated to be needed in Mississippi to assist tenants now paying rent overburden, and to enable families to move into vacant units at rents they could afford to pay. Is Farmers Home Administration doing anything to address Mississippi's needs?

**Answer.** We currently have 80,000 tenants paying over 30% of income for rent, and 20,000 vacant units that could use rental assistance nationwide. To address this need nationwide would require an additional \$1.2 billion in subsidy. While the lack of rental assistance has limited the Agency's options, we are pursuing other approaches to resolve the types of problems you describe. Nationwide we are routinely transferring unused rental assistance to projects in need and pursuing deep tenant subsidy from other sources such as the Department of Housing and Urban Development, State funding or private developers. Beginning with the FY 1994 budget request, we are asking for 1,137 rental assistance units to help service the most troubled projects in our portfolio. In addition, we are requesting 3750 voucher units that can be used in multi-family projects to alleviate rent overburden.

**Question.** It is my understanding that the fiscal year 1993 appropriation for rental assistance is short of the amount required to renew existing contracts, leaving no funds available for servicing. At the time this Committee acted on the appropriation's bill, it was our understanding that the funding made available would be sufficient to cover contract renewal and servicing needs. What is the extent of the fiscal year 1993 funding shortfall required to meet both renewal and servicing requirements?

**Answer.** We face a \$68 million or 5,472 unit shortfall for the renewal of expiring rental assistance contracts. We have written requests from field offices for 5,917 units of rental assistance to address essential servicing needs, of which 3,885 units are considered hardship requests. Currently, we are forced to reject these requests.

**Question.** Why has the contract renewal requirement exceeded the initial fiscal year 1993 estimate.

**Answer.** The funding provided for rental assistance in fiscal year 1993 was insufficient to meet our renewal requirements for several reasons. First, after our projections were made and transmitted to the Congress, a field office survey indicated an increased need for renewals above what was first anticipated.

Second, the Senate Bill provided for sufficient funding in the amount of \$223,286,000 to cover our anticipated rental assistance contract renewals and for additional servicing units. But the House Bill provided only \$174,728,000 for renewals and servicing, which did not cover our anticipated renewal needs at that time of \$216,480,000. The Conference Action appeared to compromise between the two with its provision of \$199,034,000. This level was further reduced by \$881,000, since the sum of the individual rental assistance provisions in the language exceeded the total funding level provided of \$337,699,000 for the Rental Assistance Program.

Question. Why hasn't a fiscal year 1993 supplemental appropriation been requested by the Administration for rental assistance.

Answer. In order to address the most critical needs--expiring renewals, hardships and emergencies--we are considering other solutions at this time for the FY 1993 shortfalls, but no final determination has been made as of yet.

Question. What will be the impact of not providing the additional rental assistance funds required for fiscal year 1993?

Answer. If rental assistance is not provided, 5,500 families currently receiving RA will lose this assistance in 1993, and over 200 Section 515 Rural Rental Housing projects may face default.

Question. Another problem which has been brought to my attention is the fact that new projects are being constructed in Mississippi in markets where vacant units exist without access to rental assistance.

Answer. It is our Agency policy to develop new units only in areas where there is a need for housing. However, in a limited number of cases, market studies have reflected a need for additional subsidized housing even though there may have been vacant units in the market area.

Question. Building new projects where there is available existing housing does not appear to make a great deal of sense. How extensive is this problem and what, if anything, does Farmers Home do to prevent this?

Answer. The situation you have mentioned has occurred on a very limited basis. FmHA has already developed new regulations to address this matter. These regulations will preclude development of new units in areas where there are vacant FmHA or HUD units, or where the need exists for affordable but not additional units. The regulations are in the final stages of Departmental clearance and will be forwarded to the Office of Management and Budget for review prior to publication as a Final Rule in the Federal Register. We expect publication in time for use in the program during the next fiscal year.

Question. For fiscal year 1994, Farmers Home is requesting elimination of the appropriations' earmarks on rental assistance funding so that it has the flexibility to allocate these funds between contract renewals, servicing needs and new construction.



Would such flexibility have prevented the current shortfall in fiscal year 1993 funds available to meet contract renewal and servicing requirements? How?

Answer. Because of the extent of the \$75 million shortfall, it is doubtful that the elimination of appropriations' earmarks on rental assistance would have been sufficient to allow the agency to address the shortfall in its entirety. However, such flexibility would be most beneficial in providing for less significant adjustments to meet fluctuations in program requirements. For example, with flexibility, rental assistance needed to facilitate transfers with subsequent loans could come from new construction rental assistance rather than servicing units.

Question. The fiscal year 1993 Appropriations Act establishes a floor of \$122.532 million on rental assistance provided for new construction. Without this statutory floor, what level of fiscal year 1993 funding would have been allocated for new construction?

Answer. Absent any indication of the committee's intent, the Agency would start with the working premise that historically the section 515 loan program can be delivered successfully with 70 percent or so of the units developed being further assisted through rental assistance. For domestic farm labor, the program works well with about 50 percent rental assistance coverage. These tentative new construction requirements would then be added to the Agency's most current assessment of rental assistance contract renewal needs. At the same time the Agency establishes the value per unit it will use for rental assistance obligation purposes for the year based on the Agency's data on monthly rental assistance costs on expiring units. After these items are assembled and it becomes evident that rental assistance funding is insufficient to meet our assorted programmatic needs, the Agency would pursue alternatives to lessen any adverse consequences arising from the anticipated shortfalls through incremental changes between categories.

Question. The fiscal year 1994 budget requests an increase of \$84 million for rental assistance payments to cover the cost of expiring contracts. Will this additional amount be adequate to fund all contract renewal requirements for fiscal year 1994? What assurance can you provide this Committee that this estimate is accurate? What amount is assumed in the fiscal year 1994 request for servicing needs? What amount is assumed for rental assistance for new construction?

Answer. For FY 1994, we are requesting the following levels of rental assistance units; 22,870 for renewals, 9,804 for new construction, 1,137 for servicing troubled projects and 487 for preservation activities. We feel that the amount requested for renewals will prove sufficient to meet our replacement need. Our confidence is based on recent improvements to our automated projections and our internal policies related to requesting and obligating replacement units. However, if some contracts planned for renewal in FY 1993 are carried forward into FY 1994 we will face shortages again next year.

Question. Farmers Home indicates that it has 80,000 families paying more than 30% of their incomes for rent and 20,000 vacant

units. Which states are experiencing the most severe problems? How does the fiscal year 1994 budget address these problems?

Answer. Based on information collected on fiscal year 1991 occupancy, the following States have the highest percentage of overburdened tenants: Kentucky, Louisiana, Texas, Tennessee, and Virginia. The States with the highest percentage of vacant units are: Texas, Oklahoma, Kansas, Wyoming, and North Dakota.

Our fiscal year 1994 budget request includes 1,137 servicing rental assistance units to help address a portion of this need. Also, it is expected that some portion of the 3,750 units proposed under Rural Housing Vouchers will benefit rent overburdened Section 515 rental housing tenants.

#### RURAL HOUSING VOUCHERS

Question. The fiscal year 1994 budget proposes an investment of \$75 million to implement the rural housing voucher program. Could you please tell us how this housing voucher program will work and what you see its benefits to be, as compared with our current rural housing assistance programs?

Answer. Briefly, we see the need for an alternative to new construction to provide affordable rental housing in areas with declining populations; we see also the need to make existing rental housing units affordable where they are both available and adequate. Finally, we need more flexible delivery systems than housing authorities that often have little interest or concern for rural communities.

FmHA housing vouchers would do the same basic thing that HUD's vouchers do with several key differences. First, market rents would be set at the local level and be lower than state or county-wide rents and, thus, the program would be less costly. Also, some housing vouchers would be set aside to complement the rental housing aspect of the Housing Preservation Grant Program where needed to make those units affordable after rehabilitation.

The balance of the program would be made available in markets with declining populations and high need of affordable rental housing. Every effort would be made to use the community's existing housing stock, which could include FmHA's Section 515 existing loan portfolio which has over 100,000 units currently vacant or occupied by rent overburdened tenants. FmHA's voucher program would be delivered through any eligible nonprofit group that could manage the program. We feel it critical to create program ownership as locally as possible to enhance local housing commitment.

#### FmHA ADMINISTRATION EXPENSES

Question. The salaries and expenses of administering the Farmers Home Administration programs are presented in the fiscal year 1994 request of the newly proposed Farm Service Agency. What amount is included in that request for these costs and how does this compare with the amount appropriated for Farmers Home Administration salaries and expenses for fiscal year 1993?

Answer. The fiscal year 1994 Budget request for FmHA salaries and expenses is \$676,394,000. The comparable amount for fiscal year 1993 is \$684,408,000.

Question. What level of full-time equivalent positions, both headquarters and field employees, associated with Farmers Home Administration programs are included in the fiscal year 1994 request for the Farm Service Agency. How does this compare with the Farmers Home Administration's current fiscal year 1993 staff-year levels?

Answer. The fiscal year 1994 request for FmHA full-time equivalent positions is 12,023. This is a decrease of 537 from the comparable amount of 12,560 for fiscal year 1993.

## QUESTIONS SUBMITTED BY SENATOR GORTON

### FmHA 502 SINGLE FAMILY HOUSING PROGRAM - GUARANTEED LOANS

Question. As you are aware, on April 21st the Farmer's Home Administration 502 Single Family Housing Guaranteed Loan Program ran out of funds. In early April, when funds were low, FmHA repooled the remaining funds nationwide and redistributed. At this time, Washington State, which was originally allocated \$5.5 million for FY93, had only spent 50.9% of its allocation. The remaining funds were revoked and redistributed to other states that had gone over their initial allocation. In some cases, I am told, the "repooling" left nearly 60 families in Washington State, that were depending on loans from FmHA, homeless. It also is forcing some local developers into bankruptcy because they developed housing specifically for FmHA 502 use based on the full funding allocated to Washington State for this program.

I understand that many states ignored their allocated 502 program limits, primarily because of a notice they received from the FmHA National Office advising that there was an expected increase of \$234 million in program funds through the President's stimulus package. When the stimulus package failed, they found themselves overdrawn, thus forcing other states to give up their unspent funds. Administrator Longino, why did the FmHA National Office advise its district offices to base its loan approval decisions on funds that not only had not yet been allocated, neither had they begun the arduous and unpredictable path of Congressional debate and approval?

Answer. The Guaranteed Rural Housing regulations require lenders to submit a request to FmHA for a review of the borrower's eligibility for the program before the loan can be approved. The National Office consistently advised its field offices to assure funds were available before notification of the lender of approval of the request for a loan guarantee.

All funds appropriated for 1993 were made available during the first quarter of the fiscal year. FmHA State Offices were notified in writing on February 4, 1993 that the Agency planned to continue operation of the program on a nationwide basis and that funds were not expected to last until the end of the fiscal year. On April 8, 1993, the National Office advised State Offices that funds were expected to last only until April 23. It was emphasized at that time that it was important to assure that funds were successfully obligated before issuance of a conditional commitment.

Question. Why are states that managed their 502 allocations wisely forced to pay for the mismanagement of other states?

Answer. Since the program involved many lenders that operate in more than one state, it was felt that the way to keep lenders interested in using the program was to keep it available nationwide.

Question. What does FmHA plan to do to help those individuals and families in Washington state who are now homeless or facing bankruptcy because of this program's mismanagement?

Answer. It is our understanding that some families have already made alternative arrangements for Federal Housing or Veterans Affairs mortgage loans. FmHA is willing to consider direct loans to families that meet the eligibility requirements for those loans.

Question. Will you urge Secretary Espy to use his authority to transfer funds to the 502 Single Family Housing Loan Guarantee program to alleviate this situation?

Answer. It is my understanding that the Secretary's office is looking at all possibilities pertaining to future funding of the program.

#### FARMER'S HOME ADMINISTRATION PROPERTY HOLDINGS

Question. I understand that currently, property in default under FmHA can only be sold to farmers who qualify for FmHA. This means that financially sound farmers do not have the opportunity to acquire these lands. Often this land will be held by FmHA for many years. This is land that, if sold, would make the government money and would return property to the tax base, benefitting all citizens of the area. Administrator Longino, is FmHA looking into ways to speed up the sale of FmHA property currently on the books?

Answer. FmHA is currently disposing of its inventory farm properties as quickly as possible and has noticed an improvement in its sales process. A good illustration of this improvement is evidenced by the fact that 76 inventory farms were sold during the month of March 1993, compared to only 29 inventory farms sold during the month of January 1993. If inventory farm property classified as suitable is not sold within 12 months from date of acquisition, it is reclassified as surplus and sold by sealed bid or public auction.

Question. The fact that this property remains accessible only to financially unstable farmers at lower rates, makes it more difficult for other struggling, yet financially sound, farmers to compete. Is FmHA also looking into ways to encourage financially sound farmers by allowing them access to some of the property held by FmHA?

Answer. The Food, Agriculture, Conservation, and Trade Act of 1990 set forth the procedures by which FmHA currently disposes of its suitable inventory farm properties. This Act requires that beginning farmers be given a preference in purchasing its inventory farm property. Even though preference is given to beginning farmers, they still must present a feasible plan of operation. Due to these statutory requirements, FmHA cannot offer its suitable farms for sale to the highest bidder. FmHA does dispose of its surplus inventory farm properties by either sealed bids or public auction which allows everyone an opportunity to purchase them.



## RURAL DEVELOPMENT ADMINISTRATION

## QUESTIONS SUBMITTED BY SENATOR BUMPERS

## RURAL DEVELOPMENT GRANTS

Question. Please provide a list of all applications received for rural development grants for fiscal year 1992. Show the applicants, the amount applied for, and the disposition of the application including the amount awarded.

Answer. As of September 30, 1992, there were 114 grants totalling \$16,899,550 awarded. This reflects the grants that were awarded during Fiscal Year 1992 based on the preapplications and applications received during Fiscal Year 1992. A list of the applicants/grantees and amounts applied for and awarded during FY 1992 follows:

RURAL BUSINESS ENTERPRISE GRANTS  
Fiscal Year 1992

<u>State</u>	<u>Applicant/Grantee</u>	<u>Disposition*</u>	<u>Amount**</u>
AK	Dinyee Corp	2	\$77,000
AK	St. George Tanaq Corp.	3	100,000
AK	Valdez Fisheries	3	118,860
AR	AR Enterprise Group	1	196,500
AR	Greengard	1	50,000
AR	Ozark Table Grape	3	1,000,000
AZ	Town of Benson	2	76,000
CA	Arcata Economic Dev. Corp.	2	26,200
CA	Calif. Statewide Dev.	2	103,500
CA	City of Fortuna	2	209,900
CT	Town of Pomfret	2	119,000
CT	Town of Stonington	2	98,000
DE	Town of Selbyville	1	30,000
FL	Apalachee Regional Plan Coun	1	100,000
FL	Apalachee Regional Plan Coun	2	400,000
GA	Chattahoochee County	3	55,000
GA	Chestatee-Chattahoo	3	425,000
GA	Coastal Area Dev.	3	150,000
GA	Crawford County	2	25,000
GA	Dawson County	2	70,000
GA	City of Hoschton	3	94,000
GA	Jasper Co. Economic Dev Auth	2	50,000
GA	Lumpkin Co. Dev. Auth.	2	50,000
GA	Middle Flint Area	2	25,000
GA	City of Riceboro	2	70,000
GA	Taylor County Board	2	25,000
HI	Self Help of People, Inc.	2	250,000
ID	Ecipda /E Cen Idaho	2	93,000
ID	IDA-ORE Planning	2	100,000
ID	Panhandle Area	2	23,000
IL	City of Abingdon	1	462,819
IL	City of Aledo	3	500,000
IL	City of Duquoin	2	102,500
IL	City of Harrisburg	2	100,000
IL	City of Lincoln	1	800,000
IL	City of Mt. Carmel	1	62,500
IL	Prairie Hill Res.	3	300,000

IL	Prairie Hill Res.	2	46,000
IL	Village of Richview	3	71,085
IL	Southeastern IL Reg Plan Comm	2	70,500
IL	Southeastern IL Reg Plan Comm	2	49,400
IL	St. Francisville	3	120,000
IN	City of Greensburg	1	330,000
IN	Henry Co. Redev.	2	100,000
IN	Nation of Miami	2	274,000
IN	Newallen Alliance	1	50,000
KS	City of Eureka	1	252,214
KS	City of Russell	2	400,000
KY	Cumberland Valley	1	451,000
KY	Kentucky Highlands	2	467,000
KY	University of KY - Somerset	2	1,150,000
LA	Town of Baldwin	1	443,000
LA	City of Dequincy	2	137,000
LA	Dixie Electric	2	100,000
LA	Eunice Chamber of Commerce	2	110,000
LA	City of Franklin	1	339,000
LA	Haynesville COC	1	150,000
LA	La Furniture Indust	1	215,000
LA	City of Morgan City	1	250,000
LA	St. Helena PJ	1	300,000
LA	St. Tammany Par IDG	1	250,000
LA	St. Martin Chamber of Comm	1	22,000
MA	Town of Wareham	2	177,000
MA	Western Mass	2	125,000
MD	Allegany County	2	335,900
MD	Town of Berlin	2	80,000
MD	Chesapeake Country	2	15,000
MD	Community Trans-	2	500,000
MD	Town of Federalsburg	2	100,000
ME	Androscoggin Valley	1	500,000
ME	Biddeford-Saco Econ	1	200,000
ME	Eastern ME Dev Dist	2	77,000
ME	Eastern ME Dev Dist	2	50,000
ME	Franklin County EDO	1	300,000
ME	Town of Fryeburg	1	61,700
ME	No. ME Regional	2	100,000
ME	Penoescot Indian	3	250,000
ME	Town of Pittsfield	1	250,000
MI	Benton Charter Township	2	100,000
MI	City of Escanaba	3	154,000
MI	City of Escanaba	2	200,000
MI	Indianfields Township	2	114,000
MI	Mellen Township	3	110,500
MI	City of Plainwell	2	145,000
MI	Village of Quincy	1	560,000
MI	City of Reading	2	130,000
MN	Boise Forte	2	50,000
MN	City of Cologne	3	199,000
MN	City of Jackson	2	102,000
MN	City of Jordan	1	142,675
MN	City of McIntosh	2	99,000
MN	Mountain Lake EDA	2	100,000
MN	City of Windom	1	100,000
MO	City of Gerald	1	171,000
MO	City of Moberly	3	150,000
MO	City of Moberly	2	181,000
MO	City of Nevada	2	70,000
MO	New Madrid Port Authority	2	100,000

MO	Rural Missouri Inc	2	80,000
MS	C & G Railroad Bridge	3	293,524
MS	City of Okolona	2	204,500
MS	Yellow Creek Port	2	204,500
NC	Bladen County	1	250,000
NC	City of Claremont	2	120,000
NC	Dunn Area Committee	3	250,000
NC	Town of Gibsonville	1	100,000
NC	Johnston County	2	100,000
NC	Town of Marshall	2	110,000
NC	North Wilkesboro	2	50,000
NC	Town of Rolesville	1	100,000
NC	Sampson County	2	178,000
NC	Smoky Mountain	3	82,470
ND	Bagg Bonanza Farm	1	211,000
ND	North Dakota AG	2	250,000
ND	Prairie Public Broadcasting	2	500,000
ND	Theodore Roosevelt Medora Found	3	500,000
ND	University of ND	1	323,104
NE	Southeast Nebraska Dev. Dist.	2	114,000
NH	Town of Farmington	3	7,500
NH	Keene Industrial	2	35,000
NH	Mt. Washington Valley Econ	3	25,000
NH	North Country Council, Inc.	3	37,500
NH	North Country Council, Inc.	2	16,000
NJ	Cedarville Co-Op	2	205,600
NJ	Township of Hamilton	2	125,000
NJ	Landisville Co-Op	3	300,000
NM	Zuni Entrepreneuria	3	202,800
NV	City of Yerington	2	21,000
NY	Chenango County IDA	2	62,500
OH	Village of Ansonia	2	85,000
OH	Buckeye Hills	2	162,700
OH	Morco Water Co. Inc	2	150,000
OH	Village of Put-In-Bay	2	180,000
OH	Twin City Water & Sewer Dist	2	150,000
OK	Central OK Business & Job Dev	2	50,800
OK	City of Seminole	3	50,000
OK	City of Seninole	2	500,000
OK	Southwest Area Vo	1	500,000
OR	City of Milton-Freewater	3	171,000
OR	Port of Morrow	3	500,000
OR	Umatilla Indian Reservation	1	500,000
PA	GROW	3	500,000
PA	Moshannon Valley Econ. Dev.	2	100,000
PA	Northern Cambria	1	194,000
PA	Pike Cty Econ Dev Corp.	1	500,000
PA	Smedcorp	3	100,000
PR	Escuela Alfarera	2	290,000
PR	Las Piedras	2	400,000
SC	Town of Aynor	2	50,000
SC	Georgetown County	2	49,000
SC	Hampton County	2	70,000
SC	City of Loris	3	54,000
SC	City of Manning	2	80,000
SC	McCormick County	2	50,000
SC	Town of Pelion	3	50,000
SC	Town of Pelion	2	78,000
SC	City of Seneca	2	65,000
SC	Trico Water Company	2	50,000
SD	Aberdeen Development	3	150,000

SD	Faulkton Dev.	3	35,000
SD	Gettysburg Chamber of Comm	3	75,000
SD	NESDECC **	2	75,000
SD	On Hand Dev. Corp.	3	71,000
SD	SD Public Broadcast	3	104,000
SD	City of Tyndall	2	6,000
SD	Veblen	2	50,000
TN	City of Caryville	2	251,000
TN	City of Dunlap	3	63,000
TN	City of Etowah	2	100,000
TN	McLemoresville	2	100,000
TX	Brenham Industrial Foundation	2	50,000
TX	City of Ladonia	1	162,000
TX	TX Dept. of Agriculture	2	400,000
UT	Emery County Ec Dev	2	37,000
UT	Six County Economic Dev Dist	2	45,000
VA	Carroll County	2	350,000
VA	MBC Development	2	30,000
VA	Town of Wytheville	2	11,000
VI	VI Industrial Park	2	20,000
VT	Vermont ETV, Inc	2	1,000,000
WA	Port Townsend	2	400,000
WI	City of Abbotsford	3	304,900
WI	Berlin Com Dev Auth	3	80,000
WI	City of Greenwood	2	76,000
WI	Village of Palmyra	2	76,000
WI	Village of Stratford	2	75,000
WV	Cabin Creek Quilts Coop Assn	2	34,800
WV	Center for Economic Options	2	45,000
WV	Jackson Co. Dev. Auth.	2	50,000
WV	Randolph Co. Dev.	2	46,250
WV	City of Ravenswood	2	110,000
WV	Regional Contract	2	35,000
WV	City of Spencer	2	7,000
WY	City of Kemmerer	2	25,000
WY	Prairieview/Champion I&S Dist	3	150,000

\* Disposition Codes

- 1 - In Process
- 2 - Obligated/Approved/Closed
- 3 - Rejected/Withdrawn/Suspense

\*\* The amount requested by the applicant and the amount awarded to grantees (disposition code 2) is the same, except for NESDECC in South Dakota (the amount requested was \$73,000 and the amount awarded was \$75,000).

#### EMERGENCY COMMUNITY WATER ASSISTANCE GRANTS

Question. Please provide for the record a list of the applications and amounts funded in 1992 and those funded and on hand for 1993.

Answer. [The information follows:]



Emergency Community Water Assistance Grants  
Applications and Amount Funded  
Fiscal Year 1992

<u>STATE</u>	<u>PROJECT NAME</u>	<u>AMOUNT</u>
AK	CITY OF NOORVIK	\$200,000
AZ	CHLORIDE WATER CO	468,000
AZ	WHY UTILITY COMPANY	330,000
CA	DONEY ST NEIGHBORHD	150,000
FL	CITY OF FANNING SPRS	454,355
FL	TOWN OF CARYVILLE	431,000
GA	CITY OF ATTAPLGUS	72,845
IA	SIRWA SE ADAMS CO	500,000
ID	KING HILL WATER USER	70,000
IL	V'AGE OF CARRIER MLS	500,000
IL	VILLAGE OF TENNESSEE	301,000
KS	RWD #1 RICE COUNTY	500,000
KS	RWD#1, LYONS COUNTY	315,000
LA	VILLAGE OF GOLDONNA	18,000
LA	TOWN OF HOMER	75,000
MD	CITY OF POCOMAKE CITY	75,000
MN	CITY OF CROMWELL	265,000
MO	CITY OF JAMESPORT	313,500
MO	CITY OF KING CITY	385,000
MO	PWSD #1, MACON CO	357,000
MO	PWSD #1 SULLIVAN CO	450,000
MO	PWSD #2 HARRISON CO	500,000
MO	PWSD #2, DAVIESS CO	169,000
NH	NORTH LODGE WELL	117,250
NY	VILLAGE OF CATTARAUG	300,000
NY	VILLAGE OF MARATHAN	250,000
NY	VILLAGE OF WELLSBURG	36,500
NY	VILLAGE OF MORRISTOWN	75,000
OH	VILLAGE OF DILLONVAL	293,000
PA	DEFIANCE WATER ASSN	48,950
PA	DUDLEY-BARNETTSTOWN	53,700
SD	TOWN OF BELVIDERS	311,600
SD	TOWN OF DELMONT	40,000
TX	CITY OF LORENZO	308,300
TX	JEAN WSC	400,000
TX	MULTI COUNT WSC	15,500
UT	KINGSTON TOWN	130,000
UT	ROCKVILLE PIPELINE	196,500
VA	TOWN OF PORT ROYAL	75,000
WA	KALISPEL TRIBE OF IN	86,000
WA	WHITMAN CO BOARD	75,000
WI	VILLAGE OF BOYD	288,000
	TOTAL	10,000,000

Applications Funded as of May 19, 1993

<u>STATE</u>	<u>PROJECT NAME</u>	<u>AMOUNT</u>
AK	CITY OF HOONAH	\$20,000
AK	CITY OF SELDOVIA	75,000
AK	CITY OF SHUNGNCK	75,000
AK	VILLAGE OF TYONEK	10,000
AL	TOWN OF BERRY	75,000
CA	GREEN VALLEY WD	455,000
CO	FLORISSANT W&S DIST	58,300
GA	CITY OF ABBEYVILLE	170,150

GA	CITY OF WARRENTON	75,000
IA	SIRWA CRESTON	500,000
ID	CITY OF CHALLIS	24,400
ID	CITY OF HOLLISTER	74,500
IL	SALINE VALLEY #6	500,000
IL	VILLAGE OF VERMILION	46,000
IN	DUPONT WATER COMPANY	500,000
KS	CITY OF CEDAR POINT	75,000
KS	RWD #13 MONT'ERY CO	500,000
KS	RWD #2 BROWN COUNTY	500,000
KY	WALLINS CREEK	75,000
LA	KOLIN RUBY WISE WD	75,000
ME	TOWN OF PITTSFIELD	500,000
MN	CITY OF CROMWELL	36,000
MO	PWSD #2 DAVIESS CO	495,400
MO	PWSD NO 1 CLARK CO	500,000
NE	CITY OF HAY SPRINGS	170,600
NM	CITY OF TEXICO	150,000
NM	FARLEY MDWCA	75,000
NM	MANZANO MDWCA	75,000
NM	UPPER CANONCITO MWA	35,000
NY	FORESTPORT WD	111,000
NY	TOWN/FORESTPORT WD	119,000
OR	OCHOO WEST WD	258,000
PA	MILLHEIM BOROUGH	275,200
PA	THREE SPRINGS	98,450
TX	HARLETON WSC	400,000
UT	BOULDER FARMSTEAD WC	138,500
WA	KITTITAS CO WD #3	65,300
WI	MEDICAL SERVICES	131,000
TOTAL		7,516,800

## Applications on Hand as of May 19, 1993

<u>STATE</u>	<u>PROJECT NAME</u>	<u>AMOUNT</u>
AZ	WHY UTILITY COMPANY	\$69,000
CA	REDWAY COMM SER DIST	193,000
IN	STUCKER FORK CONSERV	500,000
LA	SAND HILL	75,000
NY	TOWN OF CARROLL	300,000
OH	ERIE HURON CO RWA	431,000
OR	OCHOCO WEST WEST WD	242,000
TOTAL		1,810,000

## PRIVATE NONPROFIT TELEVISION SYSTEMS

Question. How have you spent the \$2,000,000 provided for 1993 for grants to statewide private, nonprofit public television systems in predominantly rural States to provide information and services on rural economics and agriculture?

Answer. No funds have yet been obligated for this program.

Question. What applications have you received, from what entities, and for what amount and purpose?

Answer. As of May 19, 1993, We have received four applications from:

Nebraskans for Public Television, Inc., in the amount of \$198,500 for production of a new public television series which will tie news and public policy issues together and inform all areas of the State;

Maine Public Broadcasting Corporation in the amount of \$500,000 to enhance knowledge of social, cultural, and medical issues of importance to the predominantly rural State of Maine;

Vermont ETV, Inc., in the amount of \$1,000,000 for research, production, and broadcast of a series of 10 television programs on education in Vermont; and

Prairie Public Broadcasting, Inc., of North Dakota, in the amount of \$1,000,000 for technical assistance training seminars via satellite.

Question. What applications have you funded, in what amount, and for what purpose? If no funds have been provided yet, why not?

Answer. No grants have been funded to date. RDA currently has four applications on hand for \$2,698,500. Eligibility determinations are now being made. As soon as the eligibility determinations are made, funds will be allocated for projects.

#### WATER AND SEWER GRANTS AND LOANS

Question. It has come to my attention that one of the concerns with an infusion of funds into the water and sewer program--particularly a large infusion--is that money may go to large projects at the expense of small projects. I understand that this is partially due to the fact that the engineers who must plan and design system tend to do the larger projects for obvious financial reasons. Is this truly a concern, and what is RDA doing to make sure that small communities are getting a fair share of the funds?

Answer. I do not believe this will be a problem. It is true that increases in available funds will present an opportunity to finance some larger projects. However, small communities will continue to receive priority for water and waste disposal financing.

Question. One of the problems with rural water and waste systems is that the local people are not trained to manage them. The systems are not maintained adequately, no cash reserve is built up for repairs, and suddenly there's a repair problem, or a safety violation, and the community has no resources or know-how to deal with it. What are you doing in this regard?

Answer. Rural water and waste systems do experience operational and maintenance problems from time to time. RDA has several programs in place that provide managers and operators of these systems technical assistance and training to overcome the problems you have mentioned. RDA's field staff also provides some assistance with management and operations of the systems financed. RDA has entered into a contract with the National Rural Water Association (NRWA) to provide Rural Water Circuit Riders in 48 States. The Rural Water Circuit Rider works directly with

operators and managers of rural water systems to assist in the operational, maintenance, management and financial problems.

RDA also has the Technical Assistance and Training (TAT) Grant Program that makes grants to nonprofit organizations to provide technical assistance and training to small, rural communities to assist with problems in the operation, management, and maintenance of rural water and waste disposal facilities.

In fiscal year 1992, RDA made four TAT grants for a total of \$5,367,000 to NRWA, Oklahoma Rural Water Association (ORWA), Rural Community Assistance Program, Inc. (RCAP), and West Virginia University Research Corporation (WVURC) to assist in this area. NRWA provides operation, maintenance, and management assistance to waste disposal systems in 39 States and water and waste disposal systems in Puerto Rico through its Wastewater Technician Program. ORWA received a TAT grant to design, construct and operate a portable water treatment plant to assist water supply systems in Oklahoma develop cost effective treatment for nitrate contamination. RCAP provides assistance to rural water and waste disposal systems in such areas as finance, management, application packaging, and problem identification and resolution in 270 communities in 45 States. WVURC operates the National Drinking Water Clearinghouse which addresses informational needs of small communities across the nation by collecting and disseminating information on drinking water topics.

RDA also administers a Solid Waste Management (SWM) Grant Program that makes grants to nonprofit organizations to assist rural communities to evaluate current landfill conditions to determine threats to water resources, to enhance operator skills in the maintenance and operation of active landfills, to help reduce the solid waste stream, and to provide technical assistance and training for operators of landfills with closure planning, and future land use plans, safety, and maintenance planning.

In fiscal year 1992, RDA made SWM grants to 26 organizations for \$3 million to provide a variety of technical assistance and training to small, rural communities for such purposes as recycling and composting programs, public education and awareness programs, operator training, and implementation of solid waste management planning.

Question. Do you provide any training for maintaining a system after you furnish the funds to install it?

Answer. Training is provided through the contract with the National Rural Water Association, and the technical assistance and training grant program, and the Solid Waste Management Grant program. Also, RDA staff provides assistance to rural communities who encounter operation, maintenance, or management problems. There are also State operated programs that provide assistance in this area to operators and managers.

#### FIELD STRUCTURE

Question. One of the main concerns about setting up the Rural Development Administration regards the provision of services in the field. RDA has seven regional offices for the entire country. Mr. Nash, you state the agency will utilize the Farmers Home Administration staff in the state and district offices to



administer the programs at the local level? I don't fully understand how this will work, or if it works, why we have two different agencies administering the same program. Are FmHA staff taking applications and answering questions about the programs on the local level?

Answer. Yes, there are FmHA employees in each State that are detailed or designated to RDA. These employees are located at the FmHA State Office or in an FmHA District Office. These FmHA employees are responsible for taking applications and answering questions about RDA programs. For the most part, this is the same staff who delivered these programs when they were the responsibility of FmHA. This is a temporary situation and will be reviewed.

Question. If so, and these local staff need to get more information, do they go to their FmHA superiors or do they go to RDA regional staff?

Answer. The FmHA District Office staff that delivers RDA programs would go to the FmHA State Office staff which has responsibility for the RDA programs. The FmHA State Office staff would go to RDA Regional staff for information and assistance.

Question. Exactly what functions are the regional offices performing? Do all applications go to the regional office for approval?

Answer. The Regional Offices are responsible for providing supervision and assistance to the FmHA field staff that has responsibility for delivery of RDA programs. Most applications are approved at the State Office level. Applications that exceed a State's approval authority go to the Regional or National Office for concurrence prior to approval by the State staff.

Question. Do any applications have to come to the national office for approval?

Answer. RDA National Office has to concur in certain loans before they can be approved by the State staff. National Office review is dictated by the amount of the loan and/or type of security upon which the loan is based. The amount of the loan varies by program, but it is generally large loans that must be concurred in by the National Office.

Question. How many staff are there in each regional office?

Answer. The following numbers of staff are assigned to Regional Offices. Note that some staff assigned to the Regional Offices are actually located in FmHA state offices.

<u>Region</u>	<u>Staff in Regional Office</u>	<u>Staff in State Office</u>	<u>Vacancies</u>
Northeast	19	15	8
Mideast	17	7	11
Southeast	16	4	10
Delta	15	7	5
Southwest	13	7	4
North Central	20	12	5
West	13	6	9

Question. To whom should a Member of Congress turn if he or she has a problem with administration of RDA programs in the state or district?

Answer. RDA's Regional Directors are responsible for the management of RDA programs within their regions. The Regional Office may be contacted concerning any problems.

Question. How would the structure change with REA being folded into RDA like the House reconciliation bill proposes?

Answer. It appears that section 1202 would provide significant direction to the internal management structure of the agency. It gives primary emphasis to the utility-oriented programs by requiring a new position of Deputy Administrator for Rural Utilities with responsibility for administering telephone, electric, and water and waste disposal programs. It also authorizes the RDA Administrator to appoint Assistant Administrators for each of these programs and for rural utility technical engineering standards and other utility management and accounting functions.

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## QUESTIONS SUBMITTED BY SENATOR JOHNSTON

### BUSINESS AND INDUSTRY PROGRAM

Question. The Rural Development Administration's Business and Industry loan program is of utmost importance to the state of Louisiana. What level of funding was included for this program in the stimulus package? Has your FY 1994 baseline budget been adjusted to reflect these funds? What is the current total budget for this program? How much is targeted for Louisiana?

Answer. The Business and Industry loan program was not included in the stimulus package. The FY 1994 baseline budget was not adjusted to reflect stimulus package funds. The current FY 1993 budget for the program is \$100 million dollars. Louisiana received an allocation of \$2,307,000. However, the FY 1994 proposed budget for the program is \$300 million dollars. Louisiana will have an allocation of approximately \$7,000,000.

Question. Louisiana is ranked among the top 3 states and the District of Columbia where every parish/county is classified as medically underserved by national standards in part because of the inadequate infrastructure in these areas. This problem is exacerbated particularly in our rural areas. What programs do you have that respond to such needs?

Answer. The Community Facilities direct and guaranteed programs make loan funds available in rural areas for health care facilities. Loans may be made to municipalities, counties, special purpose districts, nonprofit corporations, and Indian Tribes. Loan funds can be used for facilities such as hospitals, nursing homes, medical clinics, dental clinics, ambulances, and rehabilitation centers. Funds may also be used for equipment needed for operating these facilities and other necessary costs connected with them. Also, the Business and Industry guaranteed loan program may be available in rural areas for medical facilities in response to such needs.

Question. For the record, please provide a list of all programs that relate to rural development and the funding level of these programs in the state.

Answer. Following is the 1993 fiscal year allocation for Louisiana:

Community Facilities Direct Loans - \$ 2,142,000; Community Facilities Guaranteed Loans -\$2,025,000; Business and Industry Guaranteed Loans -\$2,307,000; Water and Waste Disposal Direct Loans - \$13,079,000; Water and Waste Disposal Development Grants - \$7,816,000; and Rural Business Enterprise Grants -\$284,000.

Louisiana may request additional funds for the above programs from their Regional Office and the National Office after they have used all their allocated funds.

Funds are also available to Louisiana for the following programs on a case-by-case basis:

Watershed Loans and Flood Prevention; Resource Conservation and Development Loans; Solid Waste Management Grants; Emergency Community Water Assistance Grants and Disaster Grants; Business and Industry Disaster Loans; Intermediary Relending Program Loans and Disaster Loans; Technical Assistance and Training Grants; Water and Waste Guaranteed Loans; Water and Waste Disposal Direct Loans - Disaster; and Water and Waste Disposal Development Grants - Disaster.

Question. As you may know, Louisiana has many rural parishes where unemployment is between 15 and 25 percent. The number of families living at or below the poverty level is over 50 percent. We need programs that represent a new approach to the problems of distressed communities and that move beyond the old debate that the answer to every problem is top-down bureaucracy on the one hand or trickle-down economics on the other. Is the Department considering any new initiatives or programs that go beyond this old adage and address the new emerging needs of rural communities?

Answer. We recognize that solutions to the problems of distressed communities must be broadly inclusive of numerous agencies and levels of government. And they must be organized so that commitment may be maintained over a considerable period of time. The RDA is committed to providing leadership within the Federal government to bring about this shift in focus within rural development. We are participating in several ideas that appear to have much promise.

One is to apply Federal technology to the creation of new rural products and businesses. RDA is holding discussions with the Forest Service and the Alternative Agriculture Research Commercialization Center concerning ways USDA research can be used to support new business development.

RDA has participated in developing the Presidents Empowerment Zone legislation through which state and local governments would be granted more flexibility in utilizing a variety of Federal programs targeted to these designated zones. RDA has also participated in developing development initiatives for the Pacific Northwest and the Lower Mississippi Delta.

Another is to link our programs to community-based plans and strategies. This is one of the critical missing ingredients in rural development today. RDA has assigned rural development coordinators to work with state, regional, and local agencies to develop and implement forward-looking, innovative development strategies. Our goal is to work very closely with these agencies to assure that our programs support well-thought-out local goals.

Question. The introduction of the Empowerment Act of 1993 discusses, among other things, independent evaluations of the different programs that would be implemented through this act. These evaluations would be conducted on selected rural communities to evaluate what works and what doesn't before expanding to include other communities. Are there any communities in Louisiana being considered for these independent evaluations.

Answer. Specific locations will not be identified until after the bill become law.

Question. Please provide for the record a summary of the different criteria for which communities will be considered.

Answer. Section 1392 of the bill provides that rural areas must have a maximum population of 30,000, a maximum size of 1,000 square miles, consist of census tracts with poverty rates of at least 20 percent, and higher in most cases, and they must have submitted an effective strategic plan. Eligible areas must have continuous boundaries, except for areas that cross State lines, which may be in as many as 3 contiguous States and may contain up to 3 noncontiguous parcels.



RURAL ELECTRIFICATION ADMINISTRATION  
QUESTIONS SUBMITTED BY SENATOR BUMPERS

Question: How much money is available for grants through the rural development subaccount in 1993?

Answer: Currently there is \$14.1 million available for rural development grants.

Question: Do you require that these grants be provided in conjunction with rural economic development loans?

Answer: A regulation to implement the grant program is under development. A proposed rule will be published this summer. REA will then receive and evaluate public comments.

Two general uses for grant funds are under consideration. First, there are grants to be passed through REA borrowers and used exclusively in conjunction with zero-interest loans. Grants made in conjunction with loans will result in the greatest chance for successful rural development projects.

Second, REA is proposing to make grants, independent of loans, to REA borrowers to establish and maintain revolving loan programs in their local areas. However, these proposed regulations are in the process of departmental clearance and are subject to change.

Question: Please provide a list of grantees, amounts and purposes for 1992 and 1993.

Answer: No grants have been made in FY 1992 and 1993 to date. We anticipate the awarding of grants in late 1993 after the grant regulation is finalized.

Question: You propose, in the investment package, \$50 million in telephone loans for the Distance Learning and Medical Link Program. Are loan funds authorized for this purpose?

Answer: Yes, presently under provisions of the RE Act the Agency can make loans to telephone companies for purposes which include distance learning and medical link.

Question: Will you require that applicants for grants under this program take a portion of their funds in loans?

Answer: The Distance Learning and Medical Link Grant Program is exclusively a grant program. There is no requirement for an applicant to also apply for a loan.

Question: Why haven't you used the 1992 funds provided for this program?

Answer: This grant program is very complex and required thorough planning to draft an effective and workable regulation. A proposed rule was published in May 1992 and REA received numerous public comments which needed to be evaluated. The final regulation was published on February 26, 1993. The \$10 million in available funds are expected to be awarded by the end of fiscal year 1993.

Question: Please provide a list of grantees, amounts, and purposes for 1992 and 1993.

Answer: No grants have been awarded to date. REA will publish a notification of applications which have been received for funding in the Federal Register during June. We expect to use all the available funds by September 30, 1993.

Question: What is the current backlog of insured loan applications at REA for both the electric and telephone programs and how long does that mean an applicant under each program has to wait for a loan approval?

Answer: The electric program currently has a backlog of 191 insured loan applications totaling \$701 million. Borrower's typically wait from 14 to 15 months for loan approval but can shorten the delay if they elect guaranteed loans.

Current funding levels in the telephone program are sufficient to process all loan applications if borrowers who qualify for guaranteed loans elect to request these funds. The average processing time for telephone loans is 87 working days.

Question: What can you do to reduce that backlog?

Answer: Electric distribution borrowers have the option of applying for a guaranteed FFB loan. The funds for this type loan are available. If the Agency was authorized to implement a prioritizing system, the waiting time for insured loans would be reduced for borrowers most in need of immediate financing.

There is no current backlog of loans in the telephone program.

Question: You mention in your testimony that you expect to obligate all of the electric loans this year--both direct and through the FFB. However, you do not say the same for the telephone program. Do you expect to use all of the direct telephone loan authority? If not, why not? Do you have a shortage of applications?

Answer: We do not expect to use all of the direct or guaranteed lending authority in the telephone program due to a lack of loan applications.

Question: You mention the issue of repricing REA loans in your testimony. These loans must have been made prior to 1983 and must be at least 12 years old. A penalty equal to one year of interest is charged for the refinancing. In addition, new loan authority must be used so repricing has the effect of lowering the amount of new loans that can be made. Has repricing served to force you to deny new loans due to a lack of loan authority?

Answer: Priority is given to applications for new loan guarantees and the remaining authority is used for repricing. Consequently, no new loan guarantees have been denied due to a lack of loan authority.

Question: Please provide for the record the amount of repricing in each program for 1992 and 1993 and show how that has affected the availability of new loans.

Answer: In the electric program, \$603 million of repricing were approved during fiscal year 1992 and \$551 million to date in fiscal year 1993. We expect to reprice a total of approximately \$700 million during this fiscal year. As previously noted, this did not affect the availability of authority for new loans.

The telephone program did not have any requests for loan repricing in fiscal year 1992. One loan in the amount of \$1,549,310 has been repriced in fiscal year 1993. Adequate loan funds are available for new loan requests.

Question: The issue of refinancing without a penalty or prepayment without a penalty for REA borrowers has been around for a long time. I understand that it is still a very hot issue with the REA borrowers and that the Administration is taking a good look at it. What is the status?

Answer: Premium-free FFB prepayments have been discussed at recent meetings with various representatives of the Administration and interested parties such as the REA borrowers and various trade associations. These discussions are continuing and no final decision has been reached at this time.

Question: What amount of loans do you expect would be refinanced or prepaid if allowed?

Answer: Based on March 31, 1993, data, \$16.6 billion of FFB electric loans are outstanding at rates exceeding 7 percent. If the prepayment penalty is waived, some or all of these borrowers may choose to prepay their loan.

Question: How much interest would this save the REA borrowers?

Answer: If all FFB electric loans in excess of 7 percent are refinanced without penalty and the new rate is 6.8 percent, rural electric cooperatives will save an estimated \$304 million in interest the first year and a total of \$3.3 billion over the remaining life of the loans. The cumulative saving is based on the assumption that outstanding balances will be amortized over the next 22 years, the average remaining repayment period.

## QUESTIONS SUBMITTED BY SENATOR JOHNSTON

Question: What level of funding is included in the Fiscal Year 1994 Budget for the "Distant Learning and Medical Link Program" administered by Rural Electrification Administration?

Answer: The budget proposal requests \$5.1 million for this program. In addition the President has submitted an investment proposal of \$50 million in loans for uses including distance learning and medical link.

Question: Is Louisiana being considered for a grant under this program?

Answer: During the first application period three applications were received from Louisiana totalling \$1,148,405.

## QUESTIONS SUBMITTED BY SENATOR COCHRAN

Question: Could you please give us a report on REA's five-year strategic plan.

Answer: REA has begun to develop a long-range plan to continue providing high-quality service to the 2,000 REA-financed electric and telephone systems. We needed to examine our business and arrive at new and more efficient ways of operating our programs. This is necessary because in the past few years REA has been given new authorities in rural economic development, in addition to the basic electric and telephone programs, which has required reorganization and reassignment of staff resources.

A team of approximately 20 staffers from within REA, representing all program and administrative areas, including policy officials, was established. Many of these staffers are career employees with long experience in the Agency. Work is continuing on this project and I am encouraged by the suggestions received and the employee participation. We expect the plan to be completed in the near future with implementation following immediately.

Question: Beginning in fiscal year 1994, a 1.03 percent loan origination fee is being proposed on all Federal Financing



Bank direct electric loans equal to the amount of the subsidy. How much do you estimate to collect from these fees?

Answer: Fiscal year 1994 estimated obligations of \$300,450,000 for new FFB financed electric loans would result in REA collecting \$3,094,635 in fees.

Question: I understand REA distance learning and medical link grants are limited to a minimum of \$10,000 and a maximum of \$500,000. Are these annual limitations?

Answer: The maximum grant for fiscal year 1993 is \$500,000. This amount is based on the regulation which limits the maximum grant to 10 percent of appropriated funds available each year. Therefore, the maximum limit may change based on appropriated funds available each year. The minimum grant of \$10,000 will remain unchanged.

Question: Can a project requiring an amount in excess of the \$500,000 limitation seek additional grant funds in subsequent fiscal years?

Answer: An applicant may apply for additional funding in subsequent years. However, each application's funding request should be sufficient to complete a portion of a project without having to rely on subsequent years of funding.

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## QUESTIONS SUBMITTED BY SENATOR GORTON

Question: I am familiar in general terms with the REA reform package included in the House reconciliation bill. Do you feel the proposed changes in the REA program will be beneficial to the rural electric co-ops and will they be able to receive adequate capital financing in the long-term?

Answer: Our preliminary analysis of the proposed legislation has raised various questions as to the intent of a number of the provisions. Until these issues are clarified, we cannot speculate on the long-term implications of the proposal.

Question: Do you have any insight as to whether this plan might affect cooperatives in the State of Washington in any particular way?

Answer: We do not note anything in the proposed legislation that would have a particular impact on cooperatives in the State of Washington.

Question: Generating co-ops that have higher cost debt are unable to refinance those loans through the FFB without paying a tremendous interest penalty. Yet other FFB borrowers--student loans, less developed countries--either have had the prepayment penalty waived or the debt forgiven altogether. In my state, for example, two rural electric systems are paying these high costs for their involvement with the Boardman power

plant which was financed in the late 1970s. Why are the co-ops treated differently than other borrowers? Shouldn't they be given the right to prepay without penalty to lower their cost of doing business?

Answer: The terms and conditions of the note borrowers execute with the Federal Financing Bank require the payment of a price which reflects the then current value of the note, if prepaid. However, in those cases of 1982 or older notes that are at least 12 years old, the terms of the FFB notes do permit borrowers to modify the interest rate on their loans. In these cases, borrowers can obtain the current lower interest rate on FFB financing of these notes if the borrower pays a premium of 1 year's interest. This option has been used by several REA borrowers in fiscal years 1992 and 1993.

Question: As a member of the Senate Rural Health Care Caucus, programs which support access to and coordination of health services in rural areas have my full support. I was delighted to learn that the REA recently announced RFP's for its telecommunications health program grant. How soon will applicants receive notice of their status and when will grant awards be announced?

Answer: A list of applications which have been received for consideration for fiscal year 1993 funding will be published in the Federal Register in June 1993. We expect grant awards to be announced during September 1993.

## FEDERAL CROP INSURANCE CORPORATION

### QUESTIONS SUBMITTED BY SENATOR BUMPERS

#### Full Costs - Federal Crop Insurance Corporation

Question. If no changes are made to the program, what funding would be required to run a full program--both for the FCIC fund and the administrative and operating expenses.

Answer. If no changes are made to the program, the estimated premium level is \$800 million with an estimated loss ratio of 1.40. Crop losses at the \$800 million premium level would be approximately \$1,120 million.

Subsidy appropriation in the amount of \$201 million would be necessary for the FCIC Fund, and \$47 million is needed to reimburse the FCIC Fund for prior year administrative expenses.

Administrative reimbursement for delivery system expenses will be approximately \$226 million. The estimated appropriation level for total administrative and operating (A&O) expenses is \$319.4 million.

#### Nonstandard Classification System

Question. What has been your experience so far in implementing the Nonstandard Classification System?

Answer. The Nonstandard Classification System (NCS) was implemented for soybeans beginning with the 1991 crop year. Additional crops were added in the 1992 and 1993 crop years. A total of 11 crops are now covered by the NCS program. Table 1 provides a listing of these crops.

Question. How many policy holders were subjected to it?

Answer. The number of insureds assigned NCS classifications through the 1993 crop year for all 11 NCS crops is 22,551. Table 2 shows the combined total for the 1991-1993 crop years, by crop.

Questions. How many remained with the program?

Answer. Complete data which indicate the insurance activity of insureds after assignment of a NCS classification is available only for soybeans for the 1991 crop year. The total number of active soybean insureds assigned NCS classifications for the 1991 crop year was 1,777 of which 1,140 continued their insurance contract for the 1991 crop year. These totals do not include insureds who canceled their insurance contract prior to selection for NCS purposes or individual entities with a substantial beneficial interest (more than 10 percent) in the farming operation for the selected insured. Data for 1992 crop year NCS crops will be available October 1993.

Question. How were their loss ratios altered?

Answer. The loss experience of crops and insureds is highly dependent on weather conditions and other risks which affect crop production. It is, therefore, difficult to accurately identify changes in loss ratio on a short base period of 1-2 years as being caused by a specific program action such as the assignment of a NCS classification.

Question. Do you have any estimate of the ongoing cost savings the NCS will generate?

Answer. Since the 1991 crop year was the first year for NCS implementation, only limited data is available to assess the impact of the NCS program. The tracking of NCS policies from year to year has been difficult. However, FCIC is implementing methods to track policies under NCS through the use of Social Security Numbers and Employer Identification Numbers, as authorized by the Farm Act of 1990. In October 1992, FCIC published a Final Rule in the Federal Register regarding collection, use, and storage of Social Security Numbers and Employer Identification Numbers. This tracking system will provide FCIC the means to conduct necessary cost studies and analyses.

Question. What are FCIC's plans for refinement and further application of NCS?

Answer. Further expansion of NCS to other crops in the near future is not anticipated. Those crops presently under the NCS program represent the major agricultural crops grown in the United States and are the principal crops producers insure under the FCIC insurance program. FCIC believes it is necessary that NCS procedures, guidelines, and regulations are fully tested and refined on these crops before making NCS applicable to other regional or highly specialized crops.

Studies are being conducted to determine necessary changes in NCS regulations which foster efforts to select only insureds who are clearly high risk producers. The collection of Social Security and Employer Identification Numbers for the 1994 crop year will enhance our ability to monitor NCS insureds and assess the performance and benefits of the NCS program.

#### NONSTANDARD CLASSIFICATION SYSTEM LISTING OF CROPS

Table 1

Barley  
Corn  
Cotton  
Grain Sorghum  
Hybrid Seed Corn  
Oats  
Peanuts  
Rice  
Soybeans  
Tobacco  
Wheat



NONSTANDARD CLASSIFICATION SYSTEM  
COUNTS OF SELECTED INSURED  
ALL CROPS  
CROP YEARS 1991-1993

Table 2

CROP	Contracts Selected
Barley	1,347
Corn	5,192
Cotton	1,524
Grain Sorghum	1,973
Hybrid Seed Corn	47
Oats	1,082
Peanuts	469
Rice	127
Soybeans	4,897
Tobacco	339
Wheat	5,554

## QUESTIONS SUBMITTED BY SENATOR HARKIN

### Federal Crop Insurance Corporation

Question. The 1994 crop insurance season is about to begin for some crops, making it imperative that the 1994 Standard Reinsurance Agreement be signed, by FCIC and returned very soon to those companies who have submitted an agreement along with their plans of operation. What is FCIC's intention regarding the time for finalizing the 1994 Standard Reinsurance Agreement?

Answer. The 1994 Standard Reinsurance Agreements will be finalized, signed and returned to the reinsured companies by July 1, 1993, which is the beginning of the 1994 reinsurance year.

Question. Does FCIC plan to have in place by this fall's crop insurance season the Social Security Number (SSN)/Employer Identification Number (EIN) tracking system contained in the 1990 farm bill?

Answer. Yes, on October 8, 1992, FCIC published in the Federal Register the final regulations providing for the collection, use and storage of SSN's and EIN's of federal crop insurance policyholders. FCIC Manager's Bulletin MGR-93-016, dated April 27, 1993, implemented these regulations. The bulletin was effective immediately and its provisions are required for the 1994 crop year, beginning with crops seeded in the fall of 1993. Reinsured companies, agency sales and service contractors, FCIC, and Agricultural Stabilization and Conservation Service (ASCS) offices involved in program delivery are required to implement the SSN/EIN regulation.

Question. How will the system work?

Answer. ALL producers are required to provide their SSN/EIN numbers to the insurer to be eligible to participate in the federal

crop insurance program. All entities involved in FCIC program delivery are required to collect, use and store SSN/EIN information. The identification of information by SSN/EIN will be used in the automated validation of individual insurance experience, Actual Production History (yields on which insurance guarantees are based), nonstandard classifications and determinations of producers ineligible for USDA benefits. Use of the SSN/EIN provides a "cross reference" to identify individual insurance experience when insureds change their names, addresses, entities, or transfer to different insurance companies.

SSN and EIN records may be used by authorized parties to: 1) determine the correct parties to the insurance contract, 2) collect premiums, 3) determine the amount of indemnities and other benefits, 4) establish actuarial data on a policyholder basis, 5) determine eligibility for program benefits, and 6) report to the Internal Revenue Service.

Question. Do you have an estimate of the cost savings that this system might generate either in dollar or loss ratio terms?

Answer. FCIC has not estimated potential cost savings which may result from the implementation of SSN/EIN tracking. However, FCIC believes the use of SSN/EIN tracking will improve administrative and program operations that increase accuracy of insurance coverage and benefits provided to insureds at reduced costs.

#### SUBCOMMITTEE RECESS

Senator BUMPERS. This concludes today's hearing. Our next hearing will be held on Monday, May 24, in this same room at 2 p.m. The subcommittee will receive testimony from the Animal and Plant Health Inspection Service, the Food Safety and Inspection Service, and the Agricultural Marketing Service.

The subcommittee stands in recess.

[Whereupon, at 3:54 p.m., Thursday, May 20, the subcommittee was recessed, to reconvene at 1:58 p.m., Monday, May 24.]

# **AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1994**

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**MONDAY, MAY 24, 1993**

**U.S. SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,  
*Washington, DC.***

The subcommittee met at 1:58 p.m., in room SD-138, Dirksen Senate Office Building, Hon. Dale Bumpers (chairman) presiding.  
Present: Senators Bumpers, Kohl, Feinstein, and Cochran.

## **DEPARTMENT OF AGRICULTURE**

**STATEMENT OF EUGENE BRANSTOOL, ASSISTANT SECRETARY, MAR-  
KETING AND INSPECTION SERVICES**

**ACCOMPANIED BY STEPHEN B. DEWHURST, BUDGET OFFICER**

### **ANIMAL AND PLANT HEALTH INSPECTION SERVICE**

**STATEMENT OF LONNIE J. KING, ACTING ADMINISTRATOR**

### **AGRICULTURAL MARKETING SERVICE**

**STATEMENT OF KENNETH C. CLAYTON, ACTING ADMINISTRATOR**

### **FOOD SAFETY AND INSPECTION SERVICE**

**STATEMENT OF H. RUSSELL CROSS, ADMINISTRATOR**

### **OPENING REMARKS**

Senator BUMPERS. Today we hold our last hearing on the fiscal year 1994 budget for Agriculture, Rural Development, and Related Agencies.

Today we will review the budgets for the Animal and Plant Health Inspection Service, the Food Safety and Inspection Service, and the Agricultural Marketing Service.

Our witnesses are Eugene Branstool, Assistant Secretary for Marketing and Inspection Services; Lonnie King, Acting Administrator, Animal and Plant Health Inspection Service; Russell Cross, Administrator, Food Safety and Inspection Service; Kenneth Clayton, Acting Administrator, Agricultural Marketing Service; and Stephen Dewhurst, Budget Officer, USDA.

As a broad overview, in comparison to 1993 funding, the budget for APHIS is increased by \$5 million, the appropriated budget for FSIS is down by \$76 million, while user fees are proposed to gen-

erate \$104 million. And the Agriculture Marketing Service budget is decreased by \$5 million, but proposes to raise \$6.2 million in user fees.

We have statements from each of the agencies and the assistant secretary. They will be made a part of the record in full.

Mr. Branstool, I will ask you to make your oral statement after which we will entertain questions from the subcommittee for each of the agencies. You may proceed, and welcome to the committee.

#### ASSISTANT SECRETARY BRANSTOOL'S REMARKS

Mr. BRANSTOOL. Mr. Chairman, members of the committee, I am pleased to appear before you to discuss the Marketing and Inspection Services programs of the U.S. Department of Agriculture, and their fiscal year 1994 budget proposals.

We have prepared statements for the record and will answer questions regarding the budget proposals for specific programs.

For fiscal year 1994, the discretionary appropriations request is \$936 million which is \$94 million less than the amount appropriated in 1993. I will use the remainder of my time to highlight the Department's budget request for Marketing and Inspection Services.

In fiscal year 1994, the additional \$18 million is proposed to continue efforts to staff the meat and poultry inspection program and to initiate additional research to bring about overall improvement in the meat and poultry inspection system. It would fund the recently hired 160 inspectors and an additional 40, for a total of 200 inspectors.

These inspectors will not eliminate the limitations of the current system, which is based on visual examination. However, the administration is determined to make the existing system work as well as possible while we seek longer term solutions.

Fees already exist to recover the cost of many marketing and inspection services, thus reducing the burden on taxpayers. For 1994, the President's budget proposes to expand user fees to recover all of the costs of inspecting meat, poultry and egg products beyond the first scheduled shift. The budget also proposes to shift the costs of developing commodity standards to the users rather than continuing to support them with taxpayer funds.

It is further proposed that fees be charged to recover the cost of providing technical assistance to large profitable cooperatives. Authorization is also sought to recover the Federal Government's cost of administering marketing agreements and market orders.

Throughout the past year, the Food Safety and Inspection Service has assessed current program operations to develop a strategic plan that will lead to a modernized inspection program. FSIS has developed a two-track approach. Under Track I, FSIS will evaluate existing systems to determine immediate steps that can be taken to maximize the performance of the current inspection system.

In contrast to the evolutionary approach of Track I, FSIS expects Track II to be revolutionary. From this process an inspection program will be developed that is based on public health risk and developed through an open process based on total quality management principles.



In response to the outbreak of *E. coli* 0157:H7 in Washington State, FSIS accelerated development of a pathogen reduction program. The pathogen reduction program is a key part of Track I and overlaps into Track II. The control of pathogenic microorganisms has always been an implicit goal of the Federal meat and poultry inspection program. The current program has worked to achieve this through such activities as organoleptic inspection of slaughterhouses, daily inspection in processing plants, inspection of imported products, laboratory analysis, and consumer education.

The pathogen reduction program will be a significant step in reducing the likelihood that harmful pathogens will enter the food supply at key points in the production, processing, distribution, and consumption chain.

#### FSIS BUDGET

For 1994, we are requesting an appropriation of \$413.6 million, and expanded user fees of \$104 million derived by recovering 100 percent of the cost of inspection service provided beyond a primary approved shift, as authorized by the Federal Meat Inspection Act and the Poultry Products Inspection Act, and new user fees for laboratory accreditation as authorized by the 1990 FACT Act.

This request reflects increased activity of \$28 million, but a reduction in the discretionary appropriation of \$76.3 million from 1993.

While USDA is committed to decreasing the employment within the Department, an exception has been made in the meat and poultry inspection area. The 1994 budget includes an increase of \$10 million for an additional 200 inspectors over the level in early 1993. The 1994 budget also includes an increase of \$8 million to conduct scientific investigations and study methods that can be utilized under the pathogen reduction program.

#### ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Nearly 45 million passengers at U.S. airports and other ports of entry were inspected by the agricultural quarantine inspection officers in fiscal year 1992; an increase of almost 5 million from fiscal year 1991. Nearly 80 percent of these activities were financed by user fees.

With improved foreign collection of biocontrolled organisms, quarantine screening, mass rearing, and evaluation of exotic enemies, parasites are being developed for such pests as the Russian wheat aphid and the sweetpotato whitefly.

Cooperative partnerships with producers, accredited veterinarians, allied industry representatives, and State agricultural health officials are important features of the disease and pest control programs. Examples are the scrapie voluntary flock certification program which resulted from negotiated rulemaking, and the boll weevil program where APHIS pays 30 percent of the program costs and cooperators pay 70 percent.

Last year, APHIS conducted nearly 19,000 inspections to ensure the proper care of animals under the Animal Welfare Act. The animal damage control program strives to alleviate damage caused by wildlife through an integrated pest management approach.

We are requesting budget authority for \$448.4 million, of which \$91.5 million is funded by user fees for agricultural quarantine inspection at ports of entry and \$10.3 million is for buildings and facilities. No new user fees are proposed.

#### AGRICULTURAL MARKETING SERVICE

The Agricultural Marketing Service's fundamental mission is to improve the efficiency of the marketing of agricultural products, ensure fair trading practices, and assure consumers of a food supply that is abundant and of high quality.

To accomplish this, the Agricultural Marketing Service administers a variety of programs that enhance the marketing and distribution of agricultural products. Activities include the dissemination of market information, inspection of egg products, development of grade standards, protection of producers, random testing of commodities for pesticide residues, oversight of agricultural research and promotion programs, and research and technical assistance aimed at improving the efficiency of food marketing and distribution.

The Agricultural Marketing Service also administers marketing agreements and marketing orders at the national level, and purchases commodities that support domestic feeding programs such as the National School Lunch Program.

For 1994, the budget requests \$52.1 million for marketing services and payments to States, a reduction of \$5.1 million from 1993. This reduction reflects a proposal to recover \$6.2 million in expanded user fees for the development of commodity grade standards and the costs associated with providing egg products inspection service for anything beyond the first shift.

The budget also proposes authority to recover \$10.7 million, which is the Federal Government's cost of administering marketing agreements and marketing orders previously funded by section 32.

I want to thank you, Senator, for this opportunity to present the budget for these Marketing and Inspection Services programs. I believe it proposes funding amounts and sources that will assure the successful accomplishment of the Department of Agriculture's mission to serve the industry, consumers, and the general public.

#### PREPARED STATEMENTS

Senator BUMPERS. Thank you very much, Mr. Branstool. We have your complete statement and it will be made part of the record along with the statements of Dr. King, Mr. Clayton, and Dr. Cross.

[The statements follow:]

#### STATEMENT OF EUGENE BRANSTOOL

Mr. Chairman and members of the Committee, I am pleased to appear before you to discuss the Marketing and Inspection Services programs of the U.S. Department of Agriculture and their fiscal year 1994 budget proposals. With me today are Dr. H. Russell Cross, Administrator of the Food Safety and Inspection Service (FSIS), Dr. Lonnie J. King, Acting Administrator of the Animal and Plant Health Inspection Service (APHIS) and Dr. Kenneth C. Clayton, Acting Administrator of the Agricultural Marketing Service (AMS).

They have prepared statements for the record and will answer questions regarding the budget proposals for their specific programs.

## MARKETING AND INSPECTION PROGRAMS

The Food Safety and Inspection Service, Animal and Plant Health Inspection Service, Agricultural Marketing Service, and Federal Grain Inspection Service programs facilitate the swift movement of safe, high quality commodities from the farm to the consumer. Also the Agricultural Marketing Service and Packers and Stockyards Administration help create fair and competitive markets. The Agricultural Cooperative Service conducts research on the economics of cooperatives and provides technical assistance to individual cooperatives.

## BUDGET AND PROGRAM POLICY CHANGES

*Fiscal Year 1994 Budget*

For fiscal year 1994, the discretionary appropriations request is \$936 million, which is \$94 million less than the amount appropriated for 1993. I will use the remainder of my time to highlight the Department's budget requests for the Marketing and Inspection Services area.

*Investment*

In fiscal year 1994, the additional \$18 million is proposed to continue efforts to staff the meat and poultry inspection program and to initiate additional research to bring about overall improvement in the meat and poultry inspection system. It would fund the recently hired 160 inspectors and an additional 40 for a total of 200 inspectors. These inspectors will not eliminate the limitations of the current system which is based on visual examination. However, the Administration is determined to make the existing system work as well as possible while we seek longer term solutions.

*Savings*

Fees already exist to recover the cost of many marketing and inspection services, thus reducing the burden on taxpayers. For 1994, the President's budget proposes to expand user fees to recover all of the cost of inspecting meat, poultry and egg products beyond the first scheduled shift. The budget also proposes to shift the costs of developing commodity standards to the users rather than continuing to support them with taxpayer funds. It is further proposed that fees be charged to recover the costs of providing technical assistance to large, profitable cooperatives. Authorization is also sought to recover the Federal government's cost of administering marketing agreements and orders.

## FOOD SAFETY AND INSPECTION SERVICE

The mission of the Food Safety and Inspection Service (FSIS) is to ensure the Nation's meat and poultry supply is safe, wholesome, unadulterated and properly packaged and labeled. FSIS provides in-plant inspection to all domestic establishments preparing meat and poultry products for sale or distribution in commerce. This includes providing technical and financial assistance to States which maintain inspection programs equal to that of the Federal inspection program for products travelling in intrastate commerce. FSIS also reviews foreign inspection systems and establishments and inspects products imported to the United States to ensure that product quality and safety is equal to that provided by the Federal system of inspection.

*Program Accomplishments and Plans*

Throughout the past year, FSIS has assessed current program operations to develop a strategic plan that will lead to a modernized inspection program. During this process, FSIS received over 500 comments from its own employees and the public. With the approval of Secretary Espy, FSIS has developed a two-track approach for continued planning. Under Track I, FSIS will evaluate existing systems to determine immediate steps that can be taken to maximize the performance of the current inspection system. In contrast to the evolutionary approach of Track I, FSIS expects Track II to be revolutionary. From this process an inspection program will be developed that is based on public health risks and developed through an open process based on Total Quality Management Principles.

Shortly after we proposed this two-track strategy, FSIS was faced with a food safety crisis—the outbreak of E. coli 0157:H7 in Washington State. In response to this outbreak, FSIS accelerated development of a Pathogen Reduction Program, which was recently approved by Secretary Espy. The Pathogen Reduction Program is a key part of Track I and overlaps into Track II. The control of pathogenic microorganisms has always been an implicit goal of the Federal meat and poultry inspection



tion program. The current program has worked to achieve this through such activities as organoleptic inspection in slaughterhouses, daily inspection in processing plants, inspection of imported products, laboratory analyses, and consumer education. The Pathogen Reduction Program will be a significant step in reducing the likelihood that harmful pathogens will enter the food supply at key points in the production, processing, distribution, and consumption chain.

#### *FSIS Funding*

For 1994, we are requesting an appropriation of \$413.6 million and expanded user fees of \$104.0 million derived by recovering 100 percent of the cost of inspection service provided beyond a primary approved shift, as authorized by the Federal Meat Inspection Act and the Poultry Products Inspection Act, and new user fees for laboratory accreditation, as authorized by the 1990 FACT Act. This request reflects increased activity of \$28 million, but a reduction in the discretionary appropriation of \$76.3 million from 1993.

While USDA is committed to decreasing the employment within the Department, an exception has been made in the meat and poultry inspection area. The 1994 budget includes an increase of \$10.0 million for an additional 200 inspectors over the level in early 1993. These inspectors will fill critical vacancies and allow for growth in the industry. The 1994 budget also includes an increase of \$8.0 million to conduct scientific investigations and study methods that can be utilized under the Pathogen Reduction Program.

#### ANIMAL AND PLANT HEALTH INSPECTION SERVICE

APHIS protects American agriculture by preventing the introduction of destructive foreign plant and animal pests and diseases; monitoring plant and animal health; conducting Programs to prevent, detect, and eradicate harmful pests and diseases; and, developing methods to control animals and pests which threaten agriculture or constitutes a public health or safety hazard. It administers the Animal Welfare Act to ensure the humane care and treatment of warm blooded animals used for research, exhibition, or sold wholesale as pets.

#### *Program Accomplishments and Plans*

Nearly 45 million passengers at U.S. airports and other ports of entry were inspected by Agricultural Quarantine Inspection officers in fiscal year 1992, an increase of almost 5 million from fiscal year 1991. Nearly 80 percent of these activities were financed by user fees.

APHIS plays an important role in negotiating phytosanitary and sanitary matters that facilitate international trade. They have been exploring the concept of "regionalization" which recognizes pest or disease-free zones within countries to allow safe trade of agricultural products from those areas.

Biological control methods suppress pest infestations in a more environmentally conscious way. With improved foreign collection, quarantine screening, mass rearing and evaluation of exotic enemies, they are developing parasites for such pests as the Russian Wheat Aphid and Sweetpotato Whitefly.

The agency has recently reached a stage where it can adjust its focus from eradication of selected diseases toward monitoring animal health for economic significance and food safety. Animal health will become the major focus helping to directly and indirectly ensure food safety by helping keep animals healthier in production, and by providing vital traceback capabilities which would have been of assistance during the tragic E. coli outbreak in the Northwest.

Cooperative partnerships with producers, accredited veterinarians, allied industry representatives, and State agricultural health officials are important features of the disease and pest control programs. Examples are the Scrapie Voluntary Flock Certification program which resulted from negotiated rulemaking and the boll weevil program where APHIS pays 30 percent of program costs and cooperators pay 70 percent.

In the area of Federal oversight for biotechnology products, APHIS recently published a final rule amending the regulations for the introduction of certain genetically engineered organisms and products. The amendments supplement existing permitting requirements. The alternatives enable innovators to notify APHIS that they are introducing certain regulated articles in accordance with eligibility criteria and performance standards or to request APHIS to determine whether the plant has nonregulated status. These amendments are based on 5½ years of Agency experience in issuing permits which protect agriculture through controlled field testing of certain transgenic plants.

Last year APHIS conducted nearly 19,000 inspections to ensure the proper care of animals under the Animal Welfare Act. The horse show industry is monitored to



eliminate the soreing of horses and to penalize violators. The Animal Damage Control program strives to alleviate damage caused by wildlife through an integrated pest management approach.

#### *APHIS Funding*

We are requesting Budget Authority of \$448.4 million, of which \$91.5 million is funded by user fees for Agricultural Quarantine Inspection at ports of entry and \$10.3 million is for buildings and facilities. No new user fees are proposed.

#### AGRICULTURAL MARKETING SERVICE

The Agricultural Marketing Service's (AMS) fundamental mission is to improve the efficiency of the marketing of agricultural products, ensure fair trading practices, and assure consumers of a food supply that is abundant and of a high quality. To accomplish this, AMS administers a variety of programs that enhance the marketing and distribution of agricultural products. Activities include the dissemination of market information, inspection of egg products, development of grade standards, protection of producers random testing of commodities for pesticide residues, oversight of agricultural research and promotion programs, and research and technical assistance aimed at improving the efficiency of food marketing and distribution. AMS also administers marketing agreements and orders at the national level and purchases commodities that support domestic feeding programs, such as the National School Lunch Program.

#### *Program Accomplishments and Plans*

AMS programs play an important role in creating fair and competitive markets, many at no expense to the taxpayer. User funded grading and inspection programs provide assurance of the quality of products in the marketplace; agricultural promotion programs give producers the means to improve the marketing of their products; marketing agreements and orders help maintain adequate quantities of commodities for consumers at stable prices; and perishable agricultural commodity licenses assure prompt payment for fruits and vegetable marketers. Programs funded by appropriations provide market information and technical assistance that enhances competition and protects agriculture from unfair trade practices in the seed industry.

Beyond the marketing aspects of these programs, they provide rural America with the ability to compete nationally and globally. In addition to domestic market news reports, AMS has reached agreements with Canada and Mexico to share available market information. The success of these operations will indicate whether agreements should be made with other countries. AMS has also been involved in discussions to improve international trade by harmonizing grade standards and in cooperation with the Foreign Agricultural Service, AMS employees have been working with eastern European countries to facilitate the move to market oriented economies.

AMS administers a wide variety of programs that effects numerous commodities. To effectively administer these programs AMS has entered into 311 cooperative agreements with the States. Through Federal/State cooperation, AMS is able to reduce Federal employment and costs by sharing State-owned office space, administrative costs, and personnel. By working with the States and improving administrative efficiency, AMS has been able to close 147 offices, a 40 percent reduction in field offices over the last ten years.

#### *AMS Funding*

For 1994, the budget requests \$52.1 million for marketing services and payments to states; a reduction of \$5.1 million from 1993. This reduction reflects a proposal to recover \$6.2 million in expanded user fees for the development of commodity grade standards and the costs associated with providing egg products inspection service for anything beyond the first shift. The budget also proposes authority to recover \$10.7 million which is the Federal government's cost of administering marketing agreements and orders previously funded by Section 32.

#### CONCLUSION

Thank you for this opportunity to present the budget for these Marketing and Inspection Services programs. I believe it proposes funding amounts and sources that will assure the successful accomplishment of the Department of Agriculture's mission to serve the industry, consumers and the general public.

## STATEMENT OF DR. LONNIE J. KING

Mr. Chairman and members of the Committee, I appreciate the opportunity to report on our continuing efforts to protect American agriculture and its ability to affordably and safely feed Americans and others, and its contribution as part of the largest industry in our economy. I would like to report briefly on our Agency's mission, organization, accomplishments, and the challenges we face.

First, let me introduce some members of our management team with me today. They are Deputy Administrators, Dr. Billy G. Johnson for Veterinary Services; Mr. Bobby R. Acord for Animal Damage Control; Dr. Dale F. Schwindaman for Regulatory Enforcement and Animal Care; Mr. B. Glen Lee for Plant Protection and Quarantine; Dr. Alex B. Thiermann for International services; Mr. Terry L. Medley, Director of Biotechnology, Biologics, and Environmental Protection (and, currently, Acting Associate Administrator of APHIS); and Mr. Kevin Shea, Acting Director of the Budget and Accounting Division.

## AGENCY MISSION

The mission of the Animal and Plant Health Inspection Service (APHIS) is to protect American agriculture by providing leadership in ensuring the health and care of animals and plants, and thus improve agricultural productivity and competitiveness. This helps to keep food safe, better, and cheaper. It helps to keep our agricultural industry more efficient and thus more economically sound and successful, thereby contributing to our national economy and the public health. APHIS accomplishes this mission by: excluding exotic agricultural pests and diseases; detecting and monitoring incursions of agricultural pests and diseases; managing endemic agricultural pests, diseases, and predators; providing scientific and technical services; regulating veterinary biologics, plants, and other organisms developed through biotechnology; facilitating agricultural exports; protecting the welfare of animals; protecting endangered species; ensuring that our activities safeguard the environment; and collecting, analyzing, and disseminating information.

## AGENCY ORGANIZATION

APHIS was established as the Animal and Plant Health service in 1971. The name was changed to Animal and Plant Health Inspection Service when other functions were added the following year. The Agency headquarters are located in Washington, D.C., and Hyattsville, Maryland. Veterinarians, inspectors, plant pathologists, entomologists, wildlife biologists, and other scientists and experts are located throughout the United States, and in several foreign countries. For fiscal year 1994, we request \$438.1 million for salaries and expenses, of which \$91.5 million would be from user fees, and \$10.3 million for buildings and facilities. We have a staff-year ceiling for fiscal year 1994 of 6,470. Six program delivery units, each representing unique scientific and regulatory disciplines, carry out the Agency's mission:

*Veterinary services* employs veterinarians, animal health technicians, epidemiologists and other animal health professionals. It conducts programs to ensure and protect the health of the Nation's livestock and poultry resources; prevents the entry of dangerous animal diseases; enhances the export of livestock and poultry; cooperates in disease control and eradication programs; and conducts national animal health monitoring and surveillance activities.

*Plant Protection and Quarantine* employs entomologists, plant pathologists, and others with various scientific backgrounds. It conducts programs to protect the Nation's agricultural resources from the entry of plant pests and animal diseases; cooperates in plant pest survey, control, and eradication; and certifies U.S. agricultural products for export.

*Animal Damage Control (ADC)* provides Federal leadership in managing problems caused by wildlife. The program employs wildlife management specialists whose responsibility is to protect America's agricultural, industrial, and natural resources and to safeguard public health and safety, while taking into account a wide range of legitimate public interests which may conflict with one another. These interests include wildlife conservation, biological diversity, and the welfare of animals as well as the use of wildlife for purposes of enjoyment, recreation, and livelihood.

*Biotechnology, Biologics, and Environmental Protection* employs scientists with training in multiple disciplines such as chemistry, molecular biology, ecology, veterinary medicine, microbiology, and genetics. This unit coordinates the development and execution of biotechnology regulatory policy within APHIS and other USDA regulatory agencies; issues licenses for veterinary biological products and production establishments; analyzes the environmental impact of all APHIS programs; and, where necessary, prepares environmental assessments or impact statements to en-

sure compliance with all applicable environmental laws and regulations. This program is also responsible for securing and maintaining pesticide registrations for agency programs. We also conduct pesticide residue analyses on fruits and vegetables for food safety purposes for the Agricultural Marketing Service and conduct environmental monitoring as part of APHIS' "Circle of Environmental Protection Program."

*International services* conducts activities outside the United States which support the primary goals of protecting our nation's agriculture and enhancing U.S. agricultural exports by establishing an information network on the world animal and plant pest and disease situation; negotiating with foreign officials concerning entry requirements for this country's agricultural products; cooperatively conducting agricultural pest and disease prevention, control, and eradication programs in foreign locations; and conducting preclearance programs of agricultural products destined for the United States.

*Regulatory Enforcement and Animal Care* employs veterinarians and other specially trained personnel to direct and coordinate investigations of alleged violations of law or Departmental rules and regulations, and conducts animal welfare inspections to ensure the proper stewardship of animals, whether they are destined for research, exhibition, or other regulated industries.

APHIS, through innovative and aggressive recruitment, has been able to attract the best qualified and most representative work force possible. This past year, the under-representation of women and minorities that existed in the veterinary profession was eliminated. A highly skilled work force and a working environment that stimulates and challenges our people are key to maintaining internationally recognized laboratories and support systems that provide technology, research, scientific information, and technical support services for APHIS programs, agricultural producers, and the public.

#### ACCOMPLISHMENTS AND CHALLENGES

APHIS is proud of its past. We have eradicated many threats to American agriculture, including screwworm, Avian influenza, hog cholera, exotic Newcastle disease, and on multiple occasions, Mediterranean fruit fly (Medfly). Currently, we are working successfully to eradicate Medfly in a cooperative effort with the State of California. But we see our challenges as changing. For example, we are moving in the 1990's toward an increasingly global economy. We will have to be more vigilant than ever if we are to prevent the entry of pests and diseases which are harmful to our country's agriculture. Maintaining the favorable health status of our national food animal populations and plant commodities is key to our international competitiveness in agriculture and enables us to export almost one-third of our agricultural production.

#### MANAGING OUR INSPECTION PROGRAMS TO KEEP PACE WITH THE INCREASED TRAFFIC OF PEOPLE AND GOODS

In fiscal year 1992, 45 million passengers arrived at U.S. ports, an increase of almost 5 million over fiscal year 1991. Passenger arrivals are projected to steadily increase through the year 2000. To meet this increased demand, over 1,500 scientifically trained APHIS inspectors continue to work with the U.S. Customs Service to expedite the clearance of passengers while maintaining adequate protection for American agriculture from exotic pests and diseases. We constantly explore ways to improve our inspection process. For example, in fiscal year 1992, we added nine new detector dog teams to complement 74 x-ray machines at major airports and land border stations. Most of these program activities are financed by user fees. We have tight management controls on these user fees and recently reduced several fees. The fiscal year 1994 budget proposes \$91.5 million in the AQI user fee account and \$24.6 million in the AQI appropriated account. The increased funding would enable APHIS to continue improving and implementing innovative techniques, such as x-ray machines and detector dogs, and increase staffing and support on the Mexico border to handle the escalating workload.

Current and impending international trade agreements involving free trade and regionalization have challenged APHIS' traditional import/export strategies. We expect increased trade in agricultural goods to mirror the increase in international passengers. Under the proposed North American Free Trade Agreement, the United States, Canada, and Mexico have agreed to administer sanitary and phytosanitary standards in a forthright and expeditious manner to further ensure that any trade would be safe trade for American agriculture. APHIS will continue to apply sanitary and phytosanitary measures necessary to protect the Nation's plant and animal health based on sound science and risk assessment procedures.



At the same time we are concerned with increased imports, APHIS recognizes the need to facilitate U.S. agricultural exports worldwide through bilateral discussions with many countries including Canada, Mexico, Japan, Australia, Chile, New Zealand, Korea, and Taiwan. APHIS participated in the Uruguay Round of the General Agreement on Trade and Tariffs negotiations and the United States/European Community Working Groups on phytosanitary and sanitary matters to explore the concept of "regionalization," the recognition of pest or disease-free zones within countries to allow safe trade in agricultural products from those areas to occur. We are learning to cooperate and compete at the same time for the mutual benefit of U.S. and foreign agriculture.

The fiscal year 1994 budget proposes \$5.9 million for international programs activities to increase technical information exchange with emerging and developing eastern block countries, including Russia, which will benefit worldwide phyto- and zoo-sanitary conditions.

#### DOING BUSINESS IN A MORE ENVIRONMENTALLY CONSCIOUS WAY

This year we initiated our "Circle of Environmental Protection" concept which helps the agency comply with its environmental requirements—the National Environmental Policy Act and other environmental laws, legislation, and executive orders in a proactive fashion. This is accomplished through planning, environmental documentation, and environmental monitoring. We understand and share the concern with issues such as the use of pesticides and their impact on the environment and food safety. Issues like these underscore the critical need for sound risk assessment and risk management techniques. Our National Monitoring and Residue Analysis laboratory in Gulf Port, Mississippi, plays an important role for the Agricultural Marketing Service and Food and Drug Administration pesticide data program in ensuring pesticide residues on agricultural commodities do not exceed established standards. Nationally and globally, there is an increased demand for ready access to scientific data which can be used to assess risks, forecast disease trends, and evaluate the costs versus the benefits of various disease prevention, control, and eradication methods.

Our fiscal year 1994 budget request includes \$8.2 million for biological control activities which reflects increases in foreign collection, quarantine screening, mass production, and evaluation of exotic natural enemies in many projects, including Russian wheat aphid. We have increasingly advocated and used biological control alternatives to chemicals for controlling plant pests. The concern with water and air quality, the potential carcinogenic effects of certain pesticides, and increasing pest resistance to pesticides have made it imperative for APHIS to continue to develop and improve upon biological control methods. For example, a new strain of sweetpotato whitefly has developed a resistance to most registered pesticides. This pest is believed to be widely established across the South, and is especially prevalent in California, Arizona, Texas, and Florida. It attacks over 500 different plants, including vegetables, melons, and non-crop plants, causing significant economic damage. Control efforts have concentrated on the development of biological control methods, including the use of exotic parasitic wasps, fungal pathogens, and certain natural compounds.

We are making our long standing programs ever more sound environmentally, and we are completing environmental impact statements (EIS) on three of our major program areas. A comprehensive review of our Medfly eradication and suppression programs is nearing completion after 2 years of intensive effort. The EIS analyzes alternatives for Medfly eradication and suppression, both with and without pesticides, and addresses the expected effects if no action were taken against the pest. We published the draft EIS in April. With the large number of public comments expected to follow, we expect to issue the final EIS in September.

We are also very close to completing a comprehensive environmental review of our ADC program. A draft EIS analyzing the impact of current ADC activities as well as possible alternatives was published in July 1990. Over 1,500 public comments were received, prompting a risk assessment to be undertaken that will be included in the final EIS. Because of this and numerous other revisions in response to the comments received, APHIS prepared a supplement to the draft EIS and made it available to the public in January 1993.

We have begun the process of preparing an EIS for our animal health programs, which will not only examine current program activities with a potential for affecting the environment but will also establish procedures for dealing with future site-specific needs for services, many of which are of an emergency nature and would require immediate attention. Issues that have been identified for analysis are the use of pesticides, depopulation, future emergency site-specific activities, laboratory and



operational facilities, transmission of diseases between domestic animals and wildlife, mitigation, and the compatibility of available technologies with environmental quality objectives.

#### ADJUSTING THE AGENCY'S FOCUS FROM ERADICATION OF SELECTED DISEASES TOWARD MONITORING OF ANIMAL HEALTH FOR ECONOMIC SIGNIFICANCE AND FOOD SAFETY

In the past, the APHIS budget structure reflected the Agency's focus on eradicating certain diseases. While still important, such eradication campaigns do not totally reflect APHIS' general mission of protecting animal health and, ultimately, human health. APHIS now plans to ensure, and will adjust its budget to reflect, its capability for consistent disease surveillance and detection, emergency disease preparedness and response, animal health monitoring, and epidemiological delivery without direct ties to traditional animal disease eradication programs. The emphasis is on overall animal health rather than disease, thus helping directly and indirectly to ensure food safety both by helping make animals healthier in production, and by providing vital traceback capabilities—the need for which was demonstrated recently by the tragic *E. coli* outbreak in the Northwest. However, as we make the transition to a focus on animal health, we will remain as dedicated as ever to completing successfully our brucellosis, tuberculosis, and pseudorabies programs. These cooperative Federal-State-industry efforts have achieved great success and we fully intend to finish the job. The fiscal year 1994 budget proposes \$31.4 million for brucellosis, \$5.6 million for tuberculosis, and \$3.5 million for pseudorabies eradication programs. The monitoring and surveillance activities for these programs were shifted into the animal health monitoring and surveillance line item.

Our work to control *Salmonella enteritidis* (SE), a poultry disease and a serious public health concern, is an example of how APHIS has a key role in food safety. SE has been found in many domestic commercial egg-laying chicken flocks and has infected commercial table eggs, causing human illness and death. Our SE traceback program is helping to reduce the spread of the disease as well as reducing the human illnesses and deaths caused by egg-related SE. Through the combined efforts of APHIS, egg producers, restaurants, consumers, industry representatives, and other government agencies, it should be possible to decrease human SE outbreaks from the current 60 per year to 25 by the year 2000, which is the agreed upon Food and Drug Administration/Centers for Disease Control target level. Our fiscal year 1994 budget request of \$3.5 million for SE will maintain current efforts to reach this goal.

#### ESTABLISHING COOPERATIVE PARTNERSHIPS RATHER THAN FEDERALLY MANDATED AND FUNDED PROGRAMS

In many APHIS programs, there has been close cooperation among producers, industry groups, and government. The latest example is the scrapie voluntary flock certification program that took effect on October 1, 1992. This program, which represents a clear change for the better from the earlier unsatisfactory program, resulted from negotiated rulemaking—a cooperative effort among producers, accredited veterinarians, allied industry representatives, State animal health officials, and APHIS. The budget proposes \$3.5 million, representing increased funding for continued setup and implementation of the scrapie voluntary flock certification program.

Another prime example is the cooperative Federal-State-industry pseudorabies eradication program. Program standards were developed by APHIS, State officials, and industry leaders. To participate, a State must establish a State pseudorabies committee consisting of swine producers, animal scientists, veterinarians, State and Federal regulatory officials, and other swine industry representatives. Pseudorabies eradication offers producers alternatives to eliminate the disease without requiring costly slaughter and indemnity. It also leverages new biotech diagnostic and vaccine products.

The boll weevil program serves as another example of a highly successful cooperative eradication program that has yielded enormous economic benefits to producers. In this case, APHIS pays 30 percent of program costs and cooperators pay 70 percent. The fiscal year 1994 budget proposes funding of \$9.9 million to monitor eradicated areas and to continue eradication areas begun in fiscal year 1993.

Cooperators also help fund field operations of the animal damage control program. These agricultural groups pay, on average, 50 percent of program costs in the western States and up to 100 percent of the direct costs on special projects. We request \$26.2 million to maintain the Federal share of the funding needs.

## FACILITATING THE SAFE DEVELOPMENT OF BIOTECHNOLOGY IN AGRICULTURE

In today's world of rapidly evolving technologies and continual scientific breakthroughs, APHIS is constantly challenged to keep pace with the growing awareness of the economic and social implications of biotechnology. Our challenge is to safeguard American agriculture and provide a regulatory framework which removes uncertainty and establishes appropriate regulatory oversight. In October 1992, the Agency granted a petition by Calgene, Inc., to remove from regulatory restrictions the company's genetically modified tomato, the FLAVR SAVR. The decision marked the first release of a transgenic agricultural product from special permitting constraints. Our determination was based on data from eight field tests of the tomato along with other information showing that it poses no plant or environmental health risk. Calgene is now awaiting Food and Drug Administration decisions on two petitions relating to the tomato's food safety.

On March 31, 1993, APHIS published a final rule amending the regulations pertaining to the introduction of certain genetically engineered organisms and products. The amendments supplement the existing permitting requirements by adding two alternatives for the introduction of certain genetically engineered plants with which APHIS has had considerable experience. The alternatives are (1) a provision for notification of the introduction of certain regulated articles in accordance with eligibility criteria and performance standards, and (2) a petition for the determination of nonregulated status. The notification and petition amendments became effective April 30, 1993. These amendments are based upon 5½ years of Agency experience in issuing over 400 permits for the field testing of transgenic plants, and they are a logical evolution of the regulations. The rules were published in final form after consideration of comments, which generally favored an experience-based adjustment of regulation for some transgenic plants.

Under the notification provisions, an applicant must notify APHIS 10 days before interstate movement and 30 days before importation or release. In turn, APHIS will provide this information to the respective State regulatory officials for review and input. APHIS will then notify the applicant as to whether the movement or release can proceed under notification. Regulated articles not appropriate for introduction under notification would continue to require a permit for introduction. Under the petition provisions, an applicant must submit, in accordance with APHIS requirements, all relevant information and data necessary to support a determination that the transgenic plant should no longer be regulated under the regulations in 7 CFR part 340. This includes any information known to the petitioner which is unfavorable to the petition. APHIS then has 180 days in which to approve or deny the petition. During this 180-day period, APHIS will publish notice in the *Federal Register* of the petition request for a mandatory 60-day public comment period.

Biotechnology offers the potential to revolutionize global agriculture, add value to our exports, ensure safer, more environmentally sensitive products, and provide some hope of feeding the 10 billion people expected on Earth by 2025. Our budget proposal contains \$7.7 million to carry out biotechnology and environmental protection work.

## WORKING WITH OTHER COUNTRIES FOR MUTUAL BENEFITS

We have often cooperated with other countries to protect our agricultural health and help others to develop their industries. Such cooperation will be even more crucial in the future. For example, APHIS works with international organizations, other Federal agencies, the States, and universities in conducting a number of biological control projects. This activity is crucial because often pests and diseases enter the United States from other countries unaccompanied by the natural enemies that mitigate their damage in their native countries. An example is the Asian gypsy moth, a primary pest in Russia. APHIS and the U.S. Forest Service (FS) worked closely with State agencies in Washington and Oregon to eradicate the infestations in fiscal year 1992. In addition, APHIS worked with Canadian and Commonwealth of Independent States officials to assess the situation in Russia and evaluate the risk of further introductions into Canada and this country. Along with the FS we are continuing to work with our Russian counterparts to conduct critical entomological research and population monitoring at ports and the surrounding areas in Russia. The results of this work will help us to develop procedures for reducing and eliminating the risk of exotic pest movement on cargo, containers, and carriers.

As mentioned, we have a record of outstanding cooperation with other countries. The screwworm program is an example of successful biocontrol and international cooperation, one that was well ahead of its time. Screwworm eradication began as an experimental project in Florida during the 1950's. The program was so successful using sterile flies that by 1966 the United States was declared screwworm-free.



APHIS continues to successfully prevent screwworm reintroduction into the United States. In fiscal year 1992, an outbreak of screwworm occurred in Mexico after that country had been declared screwworm-free in February 1991. In response to this outbreak, the United States and Mexico initiated an emergency eradication effort involving intensive field surveillance and sterile fly dispersal in the affected areas. No new specimens have been collected since September 30, 1992. The initiative has been successful and was terminated March 31, 1993. In addition to Mexico, the eradication program is active in Guatemala, Belize, El Salvador, Honduras, and Nicaragua. We are on target to push the screwworm to Panama before the end of the century. We propose \$34.9 million to fund these screwworm eradication activities.

#### SUCCESSFULLY FULFILLING OUR ROLE IN THE STEWARDSHIP OF ANIMALS

As an Agency of many veterinarians and wildlife biologists, we have a special understanding of animals, as well as a legal mandate. We pledge to fulfill our mandate. Last year we conducted 18,595 inspections across the U.S. to ensure the proper care of animals under the Animal Welfare Act (AWA). A number of animal welfare organizations and individuals have raised concerns recently over the use of animals in bear wrestling, photography sessions, and other exhibition activities that involve contact with humans, citing the risks to both the people and the animals involved. The AWA does not prohibit such activities. However, our standards specifically require that, in addition to being provided proper housing, sanitation, food, water, transportation, and veterinary care, exhibit animals must be handled so they do not pose a danger to the public or experience unnecessary discomfort or physical harm.

Under the Horse Protection Act (HPA), APHIS works closely with the horse show industry to eliminate the soring of horses, to prevent sored horses from being shown, and to ensure that violators of the HPA are penalized. APHIS has developed a system of industry self-regulation known as the Designated Qualified Person (DQP) program, whereby we certify horse industry organizations and associations to train and license individuals to detect sored horses. Over the past year, we have received some criticism from individuals who own or show horses and who believe that HPA enforcement is subjective and unfair. In an additional effort to ensure that the HPA is administered effectively and fairly, we recently published amendments to the HPA regulations to further standardize DQP inspection procedures.

The ADC program works to protect livestock and crops from depredating mammals and birds. In carrying out this responsibility, the program strives to alleviate damage caused by wildlife to agricultural, natural resources, and airports through an integrated pest management approach. Nonlethal methods of control are used whenever practicable. At least 50 percent of the ADC research budget, which is proposed for \$9.5 million, is devoted to hastening the development and implementation of non-lethal alternative methods. Although most program activities are conducted on private land, ADC operates on approximately 10 percent of the federally managed lands in the United States where Federal laws mandate multiple-use management of public lands. For a fee, ranchers and farmers can obtain permits from land management agencies to graze their livestock on public rangelands. The ADC program conducts control activities on public lands for livestock protection only when requested and authorized to do so by the responsible land management agency, and only as stipulated in a written agreement containing specific guidelines. These restrictions ensure that control efforts pose no significant risks to the environment, wildlife populations, or public safety.

#### BUDGET DECREASES

We propose program decreases totaling \$23.1 million. These cuts represent program successes and our intention to direct resources to priority program areas. For example, we propose a \$1.3 million decrease in the witchweed program. From 1991 to 1993, a reduction of 67 percent in witchweed infested acreage was accomplished, leaving about 40,000 acres for eradication. As less acres remain to be eradicated, fewer personnel will be needed to operate the program. We propose to eliminate the imported fire ant (IFA) line item because no registered control substance is effective against IFA on most agricultural lands. We would continue, with plant methods development funding, to evaluate the efficacy of regulatory treatments to prevent further artificial spread of the IFA. These and other cuts were not easy decisions to make, but were necessary considering other program priorities and the current Federal budget constraints.

## CONCLUSION

For over 100 years, APHIS and its predecessor organizations have played a crucial role in protecting American agriculture. Yet this mission connotes a broader perspective in today's fast changing and complex world. Protecting American agriculture means protecting the economic viability of food and fiber systems in a competitive global marketplace. In this role, APHIS will continue to meet the many challenges relating to animal and plant pest and disease conditions including traditional, exotic, and emerging issues. We will promote and facilitate optimal production systems and new trade opportunities. Finally we will deliver efficient and effective programs and activities in concert with a stronger partnership with U.S. agriculture and with the respect and consideration for food safety and public health, environmental quality, and the humane treatment of animals.

We appreciate the Committee's strong support of our programs in the past, and look forward to meeting the challenge of protecting and strengthening American agriculture in the future. We will be happy to answer any questions.

## STATEMENT OF KENNETH C. CLAYTON

Mr. Chairman and Members of the Committee, I appreciate this opportunity to brief you on the activities of the Agricultural Marketing Service—AMS. With me today is Joseph A. Roeder, Director of our Financial Management Division.

## MISSION

The mission of the Agricultural Marketing Service is to facilitate the marketing and distribution of agricultural products, ensure fair trading practices, and assure consumers of a food supply that is abundant and of high quality.

We continually adapt our services to changing domestic and international marketing practices and technologies. In cooperation with other USDA agencies and agricultural industries, we promote a strategic marketing perspective that adapts product and marketing decisions to consumer demands. AMS' wide range of programs makes the private sector marketing system for food and agricultural products more efficient, dependable, economical and equitable.

Before I present our budget proposals, Mr. Chairman, I would like to briefly describe our agency, outline our program activities, and highlight a few recent accomplishments.

## AGENCY PROFILE

AMS activities are authorized under some 50 statutes. Our agency is organized along commodity lines. This design enables us to address the specific requirements of each agricultural industry we serve. We employ 5,600 full and part-time Federal personnel and supervise an additional 6,000 State employees. These State employees perform program activities under 311 cooperative agreements involving all 50 states. Federal/State cooperation improves operational efficiency and reduces Federal employment and costs. Often, we share State-owned office space and administrative costs with the State. We have located our field offices strategically near grading, inspection, and market sites. These locations allow us to minimize the cost of providing services at plant or market locations. We have consistently strived to minimize our field office structure. Over the last 10 years, we reduced the number of our offices by 147, or 40 percent.

## AMS FUNDING

AMS activities are funded from several sources. The Marketing Services account supports market news reporting, egg products inspection, quality standards, market protection and promotion, wholesale market development, and transportation services. For fiscal year 1994, we are requesting an appropriation of \$50.9 million for this account. Our request this year is \$5.1 million less than Congress provided for fiscal year 1993. The reduction is based on our proposal to recover \$6.2 million by charging user fees for standardization activities and second shift inspection of egg products. For Payments to States matching grants, we request appropriated funding equal to this year's \$1.25 million. Our current law request from Section 32 funds is \$16.8 million. Section 32 funds support our administrative expenses relating to commodity purchase services and marketing agreements and orders. We expect to recover another \$10.7 million in new user fees for Federal administration of marketing orders if the legislative proposal is approved. The rest of AMS' programs are



user-funded activities. Ongoing AMS user-funded programs total \$159.1 million. I will elaborate on the details of our budget requests shortly.

#### ACCOMPLISHMENTS—MARKET NEWS

AMS' Market News program provides equal access to trading information on agricultural products. All buyers and sellers in the marketplace benefit from the availability of the information we publish. Buyers and sellers have a critical need for timely, accurate, and unbiased information on price, supply, inventory, and other market data. By providing today's market information, AMS reports improve the efficiency of marketing and help provide consumers with a reliable and reasonably priced food supply. Federal and State market news reporters cover more than 800 commodities in almost 2,000 markets. We report market information on cotton and cottonseed, dairy products, fruits, vegetables, livestock, meat, grains, poultry, eggs, and tobacco.

#### EGG PRODUCTS INSPECTION

Our Egg Products Inspection program protects the health of consumers by providing legislatively mandated inspection of egg breaking and processing plants. We continuously inspect 81 egg processing plants throughout the U.S. with a combined volume of 2.3 billion pounds. Egg product inspections involve sensory examination and laboratory analyses such as food chemistry, microbiology and chemical residue tests. AMS works with the Animal and Plant Health Inspection Service and the Food and Drug Administration to reduce the risk of salmonella enteritidis.

In cooperation with State Departments of Agriculture, we also make approximately 7,000 shell egg surveillance visits each year. The purpose of these unscheduled visits is to verify that shell egg packers and distributors are properly disposing of restricted eggs. These are eggs that are cracked, dirty, incubator rejects, inedible, leaking, or otherwise unfit for human consumption.

#### STANDARDS

AMS standards aid in the marketing of agricultural commodities by providing a means of measuring and communicating value so that buyers and sellers can freely and knowledgeably establish prices. Currently, we maintain nearly 600 standards for 236 commodities. AMS updates an existing standard or develops a new one when the industry needs the standard for trading.

#### FEDERAL SEED

We protect the agricultural seed user by enforcing the Federal Seed Act. The Act prohibits interstate transportation of unlabeled or mislabeled seed. Factors critical to the seed user include variety, purity, germination, and noxious weed content. This year, we expect to complete 650 case investigations. U.S. farmers spend an estimated \$4 billion annually for seeds to produce crops with a farm value of over \$80 billion. The loss from planting defective seeds can be many times the value of the seed.

#### PESTICIDE DATA PROGRAM

We operate the Pesticide Data program in cooperation with the States of California, Colorado, Florida, Michigan, North Carolina, New York, Ohio, Texas, and Washington. AMS provides technical direction, funding, and administrative support to the participating State agencies. The States collect random samples on a range of fresh fruit and vegetables, and test them for pesticide residues. To discover the actual exposure of consumers to pesticide residues, the samples are gathered at marketing points as close to the consumer as practical. Our objective is to create a data base of pesticide residue levels in food. This year we expect the program to collect 8,650 samples on 350 commodity/pesticide pairs.

This program does not duplicate the activities of other agencies, but is designed to enhance their operations while improving the information available for decision-making across government. We recognize the FDA's responsibility for the regulation of pesticides on food, and the EPA's responsibility for the regulation of pesticide application. We are coordinating our program activities with these other agencies, but the orientation of AMS' program is not regulatory. Once AMS assembles the findings of the PDP program, we provide our information to the Environmental Protection Agency for consideration in risk assessment and establishing residue tolerance levels. Any samples collected that violate the current tolerance are reported to the Food and Drug Administration for their action.

#### PESTICIDE RECORDKEEPING

The Food, Agriculture, Conservation and Trade Act of 1990 requires that we set up and oversee a Pesticide Recordkeeping program at the Federal level. The objective of the program is to ensure that certified private applicators maintain records of Federally restricted-use pesticides. We have developed the program in cooperation with the Environmental Protection Agency. AMS will work with State programs to monitor compliance.

#### ORGANIC CERTIFICATION

The Organic Foods Production Act of 1990 requires that we set up a program to establish national minimum standards for production and handling of organic agricultural products. We are cooperating with the National Organic Standards Board to develop an Organic Certification program. At the direction of Congress, the Secretary created the National organic Standards Board. The Board is responsible for developing a national list of approved and prohibited substances for organic production. The Board is also charged with providing recommendations to the Secretary concerning the certification program. Six committees created by the Board are developing recommendations on carrying out the program. Once the program is underway, State agencies or private individuals will be Federally accredited to assure that participating producers and handlers are complying with organic standards.

#### WHOLESALE MARKET DEVELOPMENT

Our Wholesale Market Development program provides technical advice and assistance to cities and States interested in improving current wholesale market facilities or in creating new ones. State and local governments and the agriculture industry recognize AMS as an authority in planning wholesale food market facilities. We also undertake specialized research to improve the agricultural marketing system and help control marketing costs. Our cooperative studies with government agencies and the private sector evaluate the handling and marketing of agricultural commodities and suggest improvements.

Wholesale food markets can play an important role in stimulating local economies. In addition, the cost savings accruing to both consumers and localities from wholesale market improvements can be significant. For example, new facilities planned for Chicago will provide room for expansion, improve shipping routes, increase operating efficiency by at least 40 percent over present facilities, and keep 2,000 jobs in the city. We also provide technical assistance and guidance that would otherwise be unavailable to farmers' markets. Farmers' markets are vital alternative outlets for smaller growers. Recent projects in Toledo, Ohio; Springfield, Missouri; Columbia, South Carolina; Montgomery, Alabama; Jackson, Mississippi; and Atlanta, Georgia are expected to generate income opportunities totaling nearly \$18 million per year. Another alternative is collection/assembly markets, which serve small to medium-sized growers. Projects in Benton Harbor, Michigan and Thomasville, Georgia are expected to offer additional income opportunities of \$21 million over five years. Finally, urban retail centers under study in Columbus, Ohio and Asheville, North Carolina could save consumers \$5 million annually. Such centers would bring fresh fruits and vegetables produced by small and medium-sized growers to inner-city consumers.

#### TRANSPORTATION SERVICES

Through our Transportation Services program, AMS represents the interests of the agriculture industry and rural communities. To ensure that an adequate and economical transportation system is available, we conduct technical research and economic studies of domestic and international transportation systems. In addition, we provide information and technical assistance on agricultural transportation to producers, shippers and carriers, rural communities, and other government agencies. Recommendations from one AMS study would reduce the estimated \$30 million in annual losses of dry goods in warehouse storage. Another study found ways to cut industry losses by reducing vibration damage in transit and distribution. Such damage was estimated at 6 percent or more of product value for delicate fruits such as strawberries. We have also worked to reduce losses occurring in transit on export shipments of livestock, estimated at \$23 million per year; and live fish, estimated at \$28 million a year. Our studies on rail line abandonment and technical assistance to shippers in Kansas produced cost savings of over \$2 million annually. AMS also holds transportation workshops and prepares handbooks for agricultural exporters.

Over the last six years, we have distributed 35,000 handbooks on the transportation and handling of perishables to the public.

#### INTERNATIONAL MARKET DEVELOPMENT

Besides our ongoing activities, we also support the Department's emerging democracies initiatives. We are helping Eastern European and former Soviet republics establish wholesale market facilities and agricultural market information systems.

#### FEDERAL-STATE MARKETING IMPROVEMENT PROGRAM

Our Federal-State Marketing Improvement program, FSMIP, provides matching grants for state and local agricultural marketing improvement projects. State agencies propose projects that involve innovative marketing techniques, ways to improve export marketing, testing study findings in the marketplace, and developing State expertise in agricultural marketing. Last year, we provided matching funds for 30 projects in 25 states. The goal of the FSMIP program is to reduce the cost of marketing for both producers and consumers. For example, a project with the Federation of Southern Cooperatives increased producer sales in Mississippi and Georgia by more than \$1 million the first year. The goal of the project was to help organize direct marketing efforts to inner city markets. Another project identified and developed a potential \$25 million market for fruits, vegetables, and alternative crops in Iowa. Other projects include testing of a portable hydrocooler that can handle 2,000 pounds of produce, development of an electronic bulletin board in Montana, and an Alternative Enterprises Information Center in Missouri.

#### MARKETING AGREEMENTS AND ORDERS

We oversee activities conducted under more than 80 milk, fruit, and vegetable marketing orders. Although Federal oversight activities for these programs are financed from appropriations, all other marketing order operational costs are financed by producers. Industry assessments collected to fund marketing order activities total \$37 million for milk and \$31 million for fruits and vegetables. The total value of products subject to marketing orders is \$13 billion for milk and nearly \$6 billion for fruit and vegetables.

Milk marketing orders assist farmers in developing steady, dependable markets by helping to correct conditions that result in price instability and disorderly marketing. Milk orders include provisions for determining the minimum prices that handlers are required to pay producers. They also include provisions for verifying weights and tests of milk shipped by producers, and provisions for auditing handler reports to verify milk usage and assure payments to producers. Fruit and vegetable marketing order programs include provisions for research and development projects, container and pack requirements, and minimum standards for quality and maturity. These and other programs help maintain a stable flow of commodities to curtail unreasonable fluctuations in supplies and prices.

#### USER FUNDED MARKETING PROGRAMS

The rest of our marketing programs are user funded. This year, user funded activities constitute 69 percent of AMS' marketing programs. These activities involve several types of services.

#### GRADING SERVICES

AMS Grading programs facilitate commerce by inspecting, identifying, and impartially certifying the quality of agricultural products according to official standards or contract specifications. We grade cotton, dairy products, fruits and vegetables, livestock and meat, poultry and eggs, and tobacco. We also offer inspection of agricultural product processing facilities, and an acceptance service. The acceptance service certifies that large volume purchases made by schools, hospitals, and government agencies such as the Department of Defense, meet contract specifications.

Grading services furnish an objective representation of the quality of the commodity. Therefore, AMS grading services are a quality control tool and a way for those who buy and sell the commodities to agree on the commercial value of a shipment. The shipment's value is a critical factor for agreement on prices, for obtaining loans, or for settling claims. We offer grading services on a voluntary, fee-for-service basis. In 1992, we graded: 17 million bales of cotton; 16 billion pounds of poultry products; one billion dozen eggs; 18 billion pounds of meat; 92 billion pounds of fresh and processed fruit, vegetables, and nuts; 2 billion pounds of dairy products, and 2 bil-



lion pounds of tobacco. We estimate the farm value of the products graded at \$50 billion.

#### PERISHABLE AGRICULTURAL COMMODITIES ACT

The Perishable Agricultural Commodities Act, or PACA, protects producers, shippers, distributors, retailers and consumers of fresh and frozen fruits and vegetables from unfair marketing practices. The Act prohibits the misbranding or misrepresentation of fruits and vegetables, and penalizes violators.

We enforce the provisions of Act to promote a fair and efficient market. This year, we expect to arbitrate 50,000 reparation disputes, file 1,000 disciplinary and misbranding actions, and conduct 3,000 personal investigations. Under the statutory trust provisions of the Act, we provide a forum for resolving reparation complaints dealing with contract disputes. We expect perishable commodity sellers to file 140,000 statutory trust notices this year, resulting in refunds of \$750 million. Annual license fees finance our PACA activities. All dealers in the produce industry operating under the Act must be licensed. Approximately 15,000 PACA licenses are in effect.

#### PLANT VARIETY PROTECTION

The Plant Variety Protection program encourages the development of novel varieties of sexually-reproduced plants and makes them available to the public. We accomplish this objective by providing legal, "patent-like" protection for breeders, developers, or discoverers of new varieties. We expect to issue 325 certificates this year. At the end of fiscal year 1992, nearly 3,000 certificates were in force. We charge user fees to recover the costs of verifying applications and issuing certificates of protection.

#### NATIONAL LABORATORY ACCREDITATION PROGRAM

The objective of our National Laboratory Accreditation program is to provide accreditation for private and commercial laboratories that conduct pesticide residue tests on agricultural products intended for human consumption. Currently, the program is in the developmental stage. The Food and Drug Administration is promulgating regulations that will set the standards for the program. Once the program is initiated, buyers and the public can be assured that accredited pesticide residue testing laboratories meet national standards for proficiency and acceptable methodology. They can also regard as accurate any claims based on analyses from these laboratories. The program will be fee-supported when operational.

#### COMMODITY PURCHASE PROGRAM

Besides our appropriated and user-funded marketing programs, we purchase non-price supported commodities to remove excess commodities from the market and supply domestic feeding programs. The commodities we purchase include meat, poultry and eggs, fruits and vegetables, and fish. Funding for Section 32 commodity purchases is appropriated from U.S. customs receipts. These funds are also used to purchase commodities for disaster feeding and to support sunflower and cottonseed oil exports. In total, AMS expects to purchase commodities valued at approximately \$450 million this year. In addition to our purchases, we act as contracting agent for the Food and Nutrition Service. Combining food purchase activities improves government efficiency. This year we expect to purchase commodities valued at \$377 million for FNS feeding programs. FNS uses the commodities acquired by AMS to meet the needs of the School Lunch and other domestic feeding programs.

In support of our commodity purchasing effort, AMS annually solicits and receives more than 2,000 bids and awards over 1,000 contracts. We purchase over 700 million pounds of commodities each year. AMS administrative costs for commodity purchase services are only 1 percent of program funds.

#### RESEARCH AND PROMOTION PROGRAMS

Finally, AMS is responsible for oversight of 11 Research and Promotion programs. Congress has separately authorized each of these industry-developed and industry-funded programs. The industry boards responsible for operating the programs reimburse us for our oversight costs. The boards collect assessments from producers and handlers to carry out self-help programs. Research and promotion programs are designed to strengthen demand and improve the quality of beef, cotton, dairy products, eggs, honey, pecans, pork, potatoes, soybeans, watermelons, and wool. A mushroom program will begin later this year. Congress has also authorized research and pro-



motion programs for limes and fluid milk, but these programs are not yet established.

#### FISCAL YEAR 1994 BUDGET REQUEST

In fiscal year 1994, we plan to continue our efforts to make the marketing of food and other farm products more efficient and also ensure fair-trading practices. Our activities benefit everyone, from the producer to the consumer. For fiscal year 1994, we propose two major changes to our budget under existing law, both involving new user fees.

First, we propose to transfer the costs of developing and maintaining commodity standards to industry beneficiaries. Because the recipients of AMS grading services benefit from up-to-date, commonly-utilized quality standards, we plan to incorporate standardization costs into the fees charged for AMS grading services. Recovery of costs for standardization activities reduces our appropriation request by \$4.5 million.

Our second user fee proposal is to recover the overtime cost of providing mandatory egg products inspection after the first shift. It is inequitable to continue to charge overtime fees to egg processing plants that do not have enough production to warrant an additional complete shift while we provide inspection at no cost to larger plants that have more than one regularly scheduled shift. This proposal reduces our appropriation request by \$1.7 million.

Finally, we have submitted a change to the authorizing legislation that would allow us to begin charging user fees for our oversight and administration of marketing agreements and orders. Federal oversight of marketing orders directly supports local activities, and the beneficiaries of marketing orders are clearly identifiable. We propose to recover the cost of Federal oversight from those in the industry who benefit. Marketing agreements and orders are administered locally by marketing order committees and market administrators. All costs for local administration and program activities are funded from assessments paid by regulated producers and handlers. These assessments can be increased to reimburse AMS costs. We will bill the local market administrator or committee for their portion of Federal costs, with payments credited to the account incurring the cost. This proposal is estimated to generate savings of \$10.3 million in fiscal year 1994, and \$10.7 million the following year.

All other adjustments to our budget request involve increases in non-salary costs, the remaining three months of the fiscal year 1993 pay raise, and decreases in administrative expenses and FTS 2000 costs.

#### CONCLUSION

With these changes, our total fiscal year 1994 budget request under existing law is \$68.9 million. This amount includes \$50.9 million in our Marketing Services account, \$1.25 million for Payments to States and Possessions, and \$16.8 million in our Section 32 Administrative account. This concludes my statement, Mr. Chairman. At this time, I would be pleased to answer any questions relating to our program activities.

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#### STATEMENT OF DR. H. RUSSELL CROSS

Mr. Chairman and Members of the Subcommittee, I am pleased to have this opportunity to discuss the programs and issues of the Food Safety and Inspection Service (FSIS).

Before I discuss our budget request for fiscal year 1994, I would like to briefly summarize the responsibilities and activities of FSIS. I would also like to bring you up to date on the steps that we have taken to strengthen our program to ensure that we are doing everything possible to provide the American people with the safest supply of meat and poultry as is possible today.

FSIS carries out its inspection responsibilities under the authority of the Federal Meat Inspection Act (FMIA) and the Poultry Products Inspection Act (PPIA). It is the mission of FSIS to ensure that meat and poultry products are safe, wholesome, and accurately labeled.

Federal inspection activities are carried out by approximately 7,400 food inspectors and veterinarians located throughout the United States in over 6,400 meat and poultry plants. During the past fiscal year, our domestic product inspectors have examined 127 million red meat animals, and 6.9 billion birds, yielding 74 billion pounds of meat and poultry for public consumption.

While the inspection of domestic meat and poultry is a priority, we also recognize the vital importance of inspecting imported products. To ensure the safety of imported meat and poultry, FSIS maintains a complex and comprehensive system of import controls to carry out the requirements of the Federal meat and poultry inspection laws. In 1992, approximately 2.5 billion pounds of imported meat and poultry were passed for entry into the United States.

Another part of our food safety program involves laboratory analysis, which provides scientific and technical support. One of the foremost functions of the program is ensuring that meat and poultry products are safe from disease, harmful chemicals, and toxins. Our inspectors in the field are provided support through laboratory testing for chemical and antibiotic residues, microbiological contamination, pathological diagnostics, processed product composition, and economic adulteration.

FSIS currently operates three multidisciplinary laboratories, supplemented by two contract laboratories, and accredits approximately 200 private laboratories to carry out food safety tests. During fiscal year 1992, over 2.1 million analyses were performed on meat and poultry samples by Federally operated or contracted laboratories.

The Agency also performs rapid in-plant screening tests, to assist inspectors in making rapid food safety determinations about the product. These tests include the Sulfa-On-Site (SOS) test, used to detect the presence of unacceptable levels of the antibiotic sulfamethazine; the Swab Test on Premises (STOP), used to detect the presence of various antibiotics; and the Calf Antibiotic Sulfa Test (CAST), used to detect the presence of antibiotics and sulfa drugs in veal calves. In fiscal year 1992, FSIS conducted 106,133 SOS tests, 117,858 STOP tests, and 79,666 CAST analyses.

We have also continued to monitor the effectiveness of the Fast Antimicrobial Screen Test (FAST) as compared to the STOP and CAST tests. The FAST test is able to detect both antibiotics and sulfonamide drug residues in the liver and kidneys and can provide test results in as little as 5 hours, compared with the overnight incubation required for STOP and CAST tests. Preliminary reports indicate that the FAST test is at least as accurate as the STOP and CAST tests. From this information, we are formulating a plan we hope will allow us to begin using the FAST system by January of 1994.

In addition to its other activities, FSIS also investigates cases of administrative, civil, or criminal violation of meat and poultry regulations and works in conjunction with the USDA Office of the General Counsel and the Department of Justice to correct violative problems and prosecute offenders, if necessary. In fiscal year 1992, 57,000 compliance reviews were conducted resulting in over 85 million pounds of meat and poultry being detained for noncompliance with meat and poultry laws. There were 38 recalls conducted involving over 5 million pounds of product. In addition, 51 convictions were obtained against firms and individuals for violations of meat and poultry laws.

#### FSIS PRIORITIES

Mr. Chairman, I would now like to turn to the priorities of FSIS in the coming year, as well as detail some of our activities over the current fiscal year.

#### MODERNIZING INSPECTION

The first area, which you've probably heard about, involves modernizing our meat and poultry inspection program. The past year was a year of assessment and planning at FSIS. During 1992, FSIS took a good, hard look at where we have been—all the way back to the inception of inspection. And we have positioned ourselves to make some tough decisions about where the Agency will go as we approach the 21st century. We must take FSIS from the organoleptic inspection system that has evolved since 1906 to a science and risk-based system.

Since early 1992, FSIS has been engaged in a comprehensive revision of its strategic plan. Last summer, FSIS published its revised planning principles in the Federal Register and invited public comment. Individual employees were also asked to comment.

Out of this process, FSIS received over 500 comments covering a range of general and specific ideas. As a result of this activity, FSIS is now developing draft strategic objectives and will again seek public comments before developing a final strategic plan.

Two developments altered the original assumptions about how to go about the strategic planning process. First, FSIS has recognized for a number of years that efforts to bring about substantial and fundamental changes in the inspection program have had little or no success. Consequently, FSIS has developed and Secretary Espy has approved a two-track approach to continue the planning of improvements.

The Track I process will involve proposed changes to the existing program that will make maximum use of our resources and knowledge within the confines of the current system. The Track II process will generate creative ideas for the kind of regulatory and inspection program the country will need as it enters the next century. FSIS intends to proceed with its strategic planning on these separate, but parallel tracks.

The second development that altered our strategic planning approach was the *E. coli* 0157:H7 outbreak in the State of Washington. Secretary Espy asked us to accelerate the program of change, particularly as it related to the reduction of pathogens—a major component of the current and any future inspection program.

Secretary Espy has recently endorsed an Agency Pathogen Reduction Program (PRP) to ensure that our pathogen reduction goals receive the attention and resources that they deserve. The plan includes elements of improvements in the current program (Track I) as well as elements that will most certainly lay the groundwork for the future (Track II).

#### MAXIMIZING THE PERFORMANCE OF THE CURRENT INSPECTION SYSTEM—TRACK I

As I mentioned, Track I focuses on maximizing the performance of our current meat and poultry inspection system. We cannot simply plan for the future and disregard needed changes that we can make in our existing program. We must make it as strong as possible within our current constraints.

Our planning is currently centered around six elements. However, we expect that the strategic plan we develop in the coming months will be even broader.

The first element of Track I is public ownership. Public ownership means actively involving all our constituents—consumers, the industry, scientists, other government agencies, and our own workforce—in an open, participatory decision-making process.

For instance, we are planning to seek out public comment on our strategic plans through regional hearings scheduled for this spring and summer. These hearings are being scheduled at various sites throughout the country. We will be actively seeking grass roots information and reactions at these hearings.

A second way that FSIS will maximize the current program through Track I will be to ensure that Agency staff and structure are aligned so they can be fully utilized. Our current program is resource intensive. Eighty percent of our budget goes to pay for in-plant personnel, and we cannot keep up with industry growth unless we take other measures.

As we discuss staffing, I recognize there will be those that wish to debate whether or not we need the additional 160 inspectors that President Clinton proposed be funded immediately in his Economic Stimulus package. With all the discussion that has recently focused on problems with pathogenic organisms, I am afraid that some are losing sight of the fact that our inspection personnel serve other valuable functions in the plant. They inspect animals before and after slaughter to detect disease and product deficiencies. They monitor the plant's quality control programs and inspect facilities and equipment for sanitation before operations can begin.

Furthermore, our inspectors examine carcasses for visible contamination, including fecal matter and ingesta which may carry bacteria. They also conduct on-site rapid testing for chemical residues and collect samples to send to the laboratories. Processing plant inspectors also check refrigeration and cooking temperatures and monitor such vital steps as thermal processing in order to prevent botulism in canned foods.

A third important component of Track I is Labor Relations. We have established and will continue to support the efforts of a Trust-building Committee and an Internal Communications Committee. Additionally, we are eliciting more input from employees, at all levels, so that they are involved in major initiatives from the beginning.

We recognize that employees who are stationed in plants have practical knowledge of how our programs work or don't work. We are committed to the principles of Total Quality Management (TQM) and we will ensure all our employees are given the opportunity to participate in making decisions about changes to our inspection program now and in the future.

A fourth key element in Track I is our goal to reduce pathogens. We have already begun our nationwide study to determine the microbiological baseline of the nation's meat and poultry supply. These baseline studies will be the "yardstick" by which we assess progress in our "war on pathogens." These data will determine whether future prevention and inspection systems can reduce microbiological contamination.

Another feature of our goal to reduce pathogens is our encouragement to industry in the voluntary use of prevention systems. In 1992, FSIS took action in three areas



as examples of this. We approved the use of irradiation of poultry; we moved to allow the use of Trisodium Phosphate in poultry slaughter operations; and we approved the use of organic acid sprays on cattle and swine. If our baseline studies do not show sufficient progress in reducing pathogens, these voluntary systems may cease to be voluntary.

I will elaborate on future activities in this area when I discuss our Pathogen Reduction Program.

A fifth key component of Track I is Consumer Service. FSIS is proposing to intensify its health and education programs that positively influence food industry employee behavior to reduce foodborne illness. We plan to expand our efforts to provide consumers with information on food handling practices. As one key tool, we are proposing to mandate safe-handling and cooking instructions on meat and poultry labels.

Science and technology is element 6 of our Track I program. We will make decisions based on science when it is available; however, this will not hamper our efforts in developing effective methods to enhance our current inspection service. We plan to incorporate all new, proven scientific findings into our program to keep it on the cutting edge.

First, we propose to continue to prepare a list of research and development priorities and encourage research in those areas. We would also work closely with our counterparts in the Animal and Plant Health Inspection Service (APHIS), the Agricultural Research Service (ARS), the Food and Drug Administration (FDA), the Centers for Disease Control and Prevention (CDC) and other federal agencies to make certain we are on target and to coordinate the development of data on the relative risk of various pathogens.

Second, FSIS has accelerated its attention to the use of risk analysis in its decision making process. The National Academy of Sciences (NAS) has repeatedly recommended that the Agency consider the risk of public health as a major objective in the design of new inspection systems.

To achieve this objective, we propose to use risk analysis, which includes risk assessment, management, and communication. I have appointed a team charged with identifying and quantifying risks through structured risk assessment. With help from our advisory committees and others, we propose to develop quantitative risk analysis models that will allow us to identify risks and provide the scientific rationale for policy development and resource allocation. Detailed economic analyses will be an important element of our risk management.

We have recently met with the CDC to discuss our future plans to reduce pathogens in the meat and poultry supply. FSIS and CDC both agree that research to determine the infectious dose of pathogens needs to be performed, and that CDC is the proper organization to perform this research. On April 5, 1993, FSIS formally requested that the CDC initiate this pathogen research in order to assist with our Pathogen Reduction Program.

The final element in the science and technology area is the proposed establishment of specific procedures for obtaining the advice of recognized experts on issues affecting the scientific and technical basis of our regulatory activities.

#### THE REGULATORY PROGRAM FOR THE FUTURE—TRACK II

In contrast to our evolutionary approach in Track I, we expect Track II to be revolutionary. If this proposal sounds vague, it's supposed to. It would be wrong for us to have too much of a preconceived notion about what this new regulatory program should be. Of course, we do have a few general principles in mind to guide us.

First, we know that any new system must be based on risk. Second, we know that this must be an open process and that we must solicit ideas from within and from outside the Agency. And we must let the public know what we are thinking and why. Third, we know that we cannot take forever to complete this process. The timetable must be realistic, but we can't wait 10 years, either. In order to develop this timetable, we will need to further explore how the project will be conducted.

Our objectives are clear. We must provide a vision of a public health risk-based inspection program that is not constrained by the configuration of the current program. We also must identify what would be needed to support implementation of a new system of inspection, including program mechanisms, necessary changes in the law and resources, including people and money. We plan to evaluate all elements of Track II to ensure the cost effectiveness of the strategy. Regulatory changes will be thoroughly reviewed to be sure that they pose the least possible burden on the public. We also plan to identify what research and developmental work still needs to be done.



As a starting point, we will host, in October, the International Symposium on Meat Hygiene. This symposium will include food safety inspection experts from 25 countries around the world. We want to hear how other countries manage the elements of their inspection programs—particularly those involving microbiological pathogens.

#### PATHOGEN REDUCTION PROGRAM

Secretary Espy has approved our strategy for the Pathogen Reduction Program (PRP) and FSIS is taking immediate steps to strengthen public health protection by squarely facing the risks posed by microbial pathogens in the food supply. These actions will be coordinated in a program that will in effect be a "war on pathogens."

The control of pathogenic microorganisms is and always has been an implicit goal of the Federal meat and poultry inspection program. The Agency has worked to achieve this goal through such activities as continuous organoleptic inspection in slaughterhouses, the daily monitoring of operations in further processing plants, laboratory analyses and scientific research, and consumer education.

In recent years, FSIS has been laying the groundwork for a future inspection system that would be based on the most up-to-date scientific knowledge and methods; employ criteria derived from quantitative risk assessments and epidemiological and microbiological surveys; focus on enhanced public health protection at critical points from the farm to the dinner table through a hazard analysis critical control points [HACCP] approach; incorporate the latest rapid detection and screening methodologies; and, use animal identification and traceback methods to determine the sources of potential or actual infections.

An integral feature of the future inspection system would be a pathogen reduction program to reduce the likelihood that harmful microorganisms—such as *Salmonella*, *Listeria monocytogenes*, or *E. coli* O157:H7—will enter the food supply at key points in the production, distribution, and consumption chain. The plan the Department is now proposing is based on HACCP principles and incorporates the essential elements of a pathogen reduction approach. This includes critical "pre-harvest" production activities, research on rapid detection methods, "post-harvest" research, in slaughter and processing plants, food service and retail activities, and even more aggressive consumer education than has been undertaken in the past.

Additional actions will include such innovations as pre-evisceration organic-acid carcass sprays and rapid in-plant detection methods for microbiological monitoring. Meat and poultry inspectors would eventually be equipped with microbiological swab kits or other tools to enhance the work they already perform to ensure that facilities and equipment are sanitary. Meanwhile, FSIS will carry out microbiological monitoring using existing methods.

In pursuing its new strategy, FSIS will be making a decisive break with the past. Under Secretary Espy's direction, the Department will not wait for an outbreak of illness to alert us that a pathogen has become a problem. Nor will it be satisfied with holding the line against contamination. USDA will strive to reduce contamination at the source. This means the examination of on-the-farm practices and conditions. We propose to initiate an effort that will send USDA personnel out to herds and flocks to find places where pathogens lodge so as to be better prepared to enumerate and eliminate them.

Thus, under the rubric of "pre-harvest production activities," FSIS, working with APHIS and other government agencies, would carry out on-farm investigations and epidemiological studies of foodborne enteric pathogens. Although FSIS intends eventually to deal with all serious pathogens through detection and eradication, it is beginning this effort—appropriately—with a study of *E. coli* O157:H7 characteristics and risk factors in cattle herds. The Department may seek, if necessary, legislative changes to mandate animal identification and traceback in order to determine the herds of origin of infected animals arriving at the slaughterhouse.

Further, to be truly proactive, USDA proposes to develop pathogen prevention programs to help producers keep their livestock from becoming carriers of dangerous bacteria. The resources of government agencies and professional associations would be marshalled in this effort.

FSIS is also proposing to accelerate the development of new methods—especially rugged, reliable tests that can yield results quickly—and make them available to in-plant inspectors. Efforts are now underway to apply new advances in molecular biology, bioluminescence, and biosensors that are capable of detecting low numbers of disease-causing bacteria on food products. Even in highly technical areas, it will not be business as usual.

In the slaughter plant environment, I mentioned earlier in my testimony that a microbiological baseline study that covers steers and heifers—the chief sources of

the steaks and roasts familiar to consumers—is already underway. The baseline study would be expanded to include cows, poultry, and swine. More must be learned about the health of cows coming to slaughter, including information on the public health significance of stressed or disabled cows compared with that of normal or healthy cows. Questions about the relative prevalence of disease-causing bacteria in these cattle populations must also be answered.

In the area of further processing, FSIS would propose stricter requirements for boneless beef reinspection by establishments and for the conditions under which hamburger patties are processed commercially. The Agency is also moving to publish a final regulation establishing time and temperature minimums for the processing of partially cooked hamburger patties to prevent the recurrence of *E. coli* 0157:H7 and other outbreaks in which such products have been implicated. FSIS and FDA will strongly encourage preventive actions across the whole range of processed foods, and will recommend and support industry initiatives to establish certified HACCP programs. In-plant microbiological monitoring would be a key feature of such programs.

Finally, FSIS is proposing to take the initiative in strengthening protection at food service establishments and in the homes of consumers. For example, the agency will propose to mandate the use of safe-handling and cooking labels on raw meat and poultry products sold at the food service and retail level, and the use of safe-handling and cooking inserts to accompany shipments of meat and poultry products used in such purchase programs as the National School Lunch program. FSIS is also committed to increased cooperative efforts with FDA, CDC, and other agencies and organizations that share roles as food safety educators.

The Pathogen Reduction Program incorporates actions that could be taken immediately at key points along the route from the farm to the table. Other preventive activities, such as those based on epidemiological research concerning infectious doses of pathogens we've asked CDC to perform would also be integrated into the program.

Some improvements will be difficult. But USDA believes that the people of this country want and deserve an up-to-date inspection system that is focused on protection from foodborne diseases and is the most efficient use of taxpayers dollars. The time is ripe for a comprehensive, cooperative effort engaging the Department of Agriculture, Health and Human Services, Congress, consumers, the scientific community, and the meat and poultry industry.

#### INCREASED COMPLIANCE ACTIVITIES

As we improve our current inspection program, another priority for FSIS in the current fiscal year and the next is to increase compliance activities. As an example, we have begun a special review of beef slaughter plants to identify, for appropriate corrective action, plants that may be failing to consistently produce clean, unadulterated products. We will not tolerate plant operations that present a threat to public health.

Plants identified as presenting public health "problems" have been subjected to Progressive Enforcement Action or withdrawal of inspection. Until all problems are corrected, FSIS will take any action necessary to ensure that no adulterated products are being shipped.

#### NUTRITION LABELING

One of our most important activities in the current fiscal year concerns nutrition labeling. In January of this year, FSIS and FDA issued final rules requiring nutrition labeling on processed foods—including meat and poultry. Labels for raw, single-ingredient meat and poultry products are voluntary. These new rules for meat and poultry go into effect in July of 1994.

As part of this new regulation, we provided an exemption for products produced by small businesses. A processed, consumer product will be exempt from nutrition labeling if the firm producing it has 500 or fewer employees and produces less than 100,000 pounds of that product a year. The exemption is not available if a nutrition claim is made on the product.

By implementing these rules, we believe that the consumer will be able to make informed purchasing decisions in regard to the nutritional contents of foods with much less confusion than in the past. We also expect the labels will provide food companies with an incentive to improve the nutritional quality of their products.

## RESIDUE TESTING

The reduction of residues from antibiotics, pesticides and other chemicals continues to be a priority of FSIS. In recent years, we have had our greatest success in this area—especially in reducing sulfamethazine residues in hogs. Last year, FSIS inspectors tested over 106,000 hog carcasses for sulfamethazine. Of this number, laboratory testing confirmed 222 violations.

In August of 1991, FSIS began intensified testing of dairy and beef cows for sulfonamide and antibiotic residues. This program was completed last September and we are currently reviewing the results. In general, violations are lower than they were in 1979.

## PUBLIC INFORMATION AND CONSUMER EDUCATION

Public information and consumer education also continues to be a high priority for FSIS. The recent outbreak of *E. coli* 0157:H7 in several Western States has highlighted the need for intensifying these efforts. As a result, consumer services are an integral part of our Track I, Track II and Pathogen Reduction Program, as I've explained earlier in my testimony.

FSIS started its food safety education program in 1973 to teach consumers about the safe handling of meat and poultry. Today, the objective of FSIS's food handling education programs is to positively influence food handler behavior, thereby preventing foodborne illness.

Recently, FSIS has joined forces with the FDA and the CDC in order to disseminate accurate and up-to-date information on the prevention of food poisoning.

## 1994 BUDGET REQUEST

The Secretary and I recognize that the program that I have just outlined is an ambitious one, and one that will require a great deal of care in planning and implementing. We are also conscious of the imperative need to make sure that whatever we do is cost effective in providing the public with the maximum level of health protection without imposing an unreasonable burden in the form of unacceptable costs.

For fiscal year 1994, we are requesting a total of \$517.7 million, of which \$104 million would be offset by new fees to be charged for certain services provided by the Agency. This represents a requested increase in our operating budget of \$28 million. In summary, this requested increase will provide:

- \$18 million included as part of the President's proposed investments to improve the Nation's health care, of which \$10 million will be used to hire an additional 200 staff years to address critical shortages of in-plant inspection personnel; and \$8 million to support additional scientific investigation in controlling the threat of microbiological contamination of meat and poultry products. Activities supported with this funding will also be instrumental in implementing the pathogen reduction program.
- \$10 million in additional funds to offset the increasing costs of the current level of services. This includes \$9.1 million for mandated employee compensation, increases of \$2.4 million for inflation related costs of goods and services, and a reduction of \$1.5 million for assumed efficiencies in the delivery of administrative support.

Taken together these proposed changes will enable us to both improve the safety assurances of the current inspection system, under present statutes and regulations, and to begin developing the scientific basis for future changes.

I would like to discuss the first of these budget items in greater detail.

It consists of two parts, the first of which provides for the hiring of additional inspectors. In fiscal year 1994, FSIS is proposing to hire 200 additional inspectors, at a full year cost of \$10 million.

Equally important, from the long term point of view, is a request for \$8 million in funding for increased applied research to support the modernization of the meat and poultry inspection system. We are proposing the Pathogen Reduction Program as the strategy to begin to move inspection on to a more science-based, risk-based system.

The Pathogen Reduction Program would expand our efforts to develop a scientifically sound microbiological baseline for cows, poultry, and swine, while maintaining our present levels of inspection coverage. The data contained in the baseline study will provide us with an "average microbial profile" against which future inspection changes can be evaluated to measure their effectiveness in improving the safety of the product. Of the \$8 million requested for this initiative, \$2.5 million will be targeted for the expansion of our microbiological baseline data survey.



We will also develop and test a microbiologic monitoring program for beef slaughter and processing operations employing Hazard Analysis Critical Control Points (HACCP) sampling in selected plants. Another \$2.5 million will enable us to develop and test microbiological monitoring programs for implementing HACCP procedures in slaughter and processing operations.

Also included in this initiative is the expansion of our research efforts to find rapid, on-site detection tests for pathogens. We are requesting an increase in this area of \$1 million. Another \$1 million will be dedicated to research to elicit further knowledge about the characteristics of foodborne pathogens in meat and poultry products and potential interventions aimed at reducing contamination during production.

Finally, the balance of this request will provide \$100,000 for the planning and coordinating of on-farm investigations, \$150,000 for the development of a mandatory animal ID and traceback program, \$150,000 for the examination of irradiation as a sterilization process of meat products, \$150,000 for the adaption of quantitative risk assessment principles to our inspection activities, and \$450,000 for the education of food handlers, fast food chain employees, and consumers in the requirements of safe food handling and cooking.

To minimize the burden of the costs of the inspection program on the Nation's taxpayers, we are proposing to collect \$1 million in user fees, as authorized in the 1991 amendments to the 1990 Farm Bill, for the accreditation of private laboratories that perform residue and other tests on meat and poultry products.

We are also proposing to collect \$103 million in user fees for all inspection performed beyond a single, primary shift. Establishments with more than one regularly scheduled and approved shift are generally large plants with sizeable production. If these establishments have enough production for more than one shift, inspection services are presently provided free of charge. To contrast, establishments that do not have enough production to warrant an additional complete shift must pay inspection overtime for the few hours a day of occasional extra production.

To put these large and small establishments on a more equal footing, all establishments that operate outside of a single approved shift, will be required to pay for the cost of the additional inspection service.

#### CONCLUSION

Mr. Chairman, today I have briefly outlined our plans for the future of FSIS. It is my intent to see that these plans are carried out and result in ever safer products through a scientifically based meat and poultry inspection program.

This concludes my prepared statement. Thank you for the opportunity to testify on the priorities of our Agency. I will be happy to answer any questions that you or other subcommittee members may have.

#### BIOGRAPHICAL SKETCHES

##### EUGENE BRANSTOOL

Eugene Branstool was nominated by President Bill Clinton to be Assistant Secretary of Agriculture for Marketing and Inspection Services on March 17, 1993. He was confirmed for that position by the U.S. Senate on May 11, and was sworn in on May 12.

As Assistant Secretary of Agriculture for Marketing and Inspection Services, Branstool oversees six USDA agencies with regulatory responsibilities for many aspects of the quality, marketing, transportation, and safety of the nation's food supply. Those agencies are the Agricultural Cooperative Service, the Agricultural Marketing Service, the Animal and Plant Health Inspection Service, the Federal Grain Inspection Service, the Food Safety and Inspection Service, and the Packers & Stockyards Administration.

Before joining USDA, Branstool had been a family farmer since 1962, operating a 700-acre grain farm near Utica, Ohio, with his brother. In addition, he spent 16 years in the Ohio legislature, 1974-90. He was first elected to the Ohio House of Representatives in 1974, where he remained until being elected to the Ohio Senate in 1982. His activities as a state senator from 1982 to 1990 included serving as the Senate Minority Whip for four years, 1987-90. He was a member of the respective agriculture committees in both houses, serving as vice-chair of the House Agriculture Committee and ranking minority member of the Senate Agriculture Committee. In January 1991 he was elected chair of the Ohio Democratic Party and held that position until April 1993. He was an explosive ordnance disposal officer in the U.S. Navy, 1959-62.



A native of Utica, Branstool holds a B.S. degree in agricultural education from Ohio State University in Columbus.

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LONNIE J. KING

Dr. Lonnie J. King is the Associate Administrator for the Animal and Plant Health Inspection Service (APHIS) and is currently Acting Administrator. Prior to serving in this position, he was the Deputy Administrator for APHIS' Veterinary Services (VS). Dr. King is a native of Wooster, Ohio, and received his B.S. (1966) and D.V.M. (1970) degrees from the Ohio State University. He has also earned a M.S. degree in epidemiology from the University of Minnesota while on a special USDA assignment in 1980. Dr. King is a diplomate of the American College of Veterinary Preventive Medicine and has recently completed the Senior Executive Fellowship program at Harvard University.

Dr. King was engaged in private veterinary practice for 7 years in Dayton, Ohio, and Atlanta, Georgia. He served in a variety of positions in APHIS-VS from 1977-1987. Those positions included field Veterinary Medical Officer (Georgia) and Station Epidemiologist (Texas). He spent 5 years in Hyattsville, Maryland, in staff assignments both in Emergency Programs and Animal Health Information. During this time, Dr. King directed the development of the Agency's National Health Monitoring System.

For a year prior to his appointment as Deputy Administrator for VS, Dr. King served in Washington, D.C., as Director of the Governmental Relations Division for the American Veterinary Medical Association. He has extensive contacts with a large segment of the veterinary profession through his work with other governmental agencies, universities, major livestock and poultry industry groups, and private practitioners. He maintains a high level of interest in public veterinary medicine through his experience and program initiatives.

Dr. King resides in Columbia, Maryland, with his wife Sylvia and their two children.

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KEVIN SHEA

Mr. Kevin Shea is the Acting Director of the Budget and Accounting Division of the Animal and Plant Health Inspection Service (APHIS). Mr. Shea was born in Washington, DC, on October 16, 1954. He earned a Bachelor of Arts degree in government and politics from the University of Maryland and a Juris Doctorate from the University of Baltimore School of Law.

Mr. Shea has served APHIS as a budget analyst, policy analyst, and supervisor. He was chief of Policy Analysis and Assistant Director of Policy and Program Development before becoming Acting Budget Director. He also completed a tour of duty with the Budget Review Division of the Office of Management and Budget.

Mr. Shea also served as an intern for the Court of Appeals of Maryland and was an associate with the law firm of Frank, Bernstein, Conaway, and Goldman in Baltimore, Maryland. He is a member of the Maryland State Bar Association and is admitted to practice before Maryland and Federal courts.

Mr. Shea resides in University Hills, Maryland, with his wife Teresa and their children, Shannon, Brendan, and Kaitlin.

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BILLY G. JOHNSON

Dr. Bill G. Johnson is the Deputy Administrator for the Veterinary Services (VS) unit. Prior to serving in this position, Dr. Johnson was the Associate Deputy Administrator for VS since June 5, 1986. He was born in San Saba, Texas, on June 30, 1935. Dr. Johnson earned a Doctorate Degree in Veterinary Medicine from Texas A&M University in 1959.

Upon earning his doctorate degree, Dr. Johnson began his Federal career with the Agricultural Research Service (ARS), serving for a short time with the Animal Disease Eradication Division in Arkansas before entering the Air Force for 2 years. After his departure from the military service in 1962, Dr. Johnson returned to ARS in Arkansas as a field veterinarian. From 1964 to 1967, he assumed the duties of brucellosis epidemiologist. He then entered the ARS Veterinary Administrative Development Program and upon completion in 1968, Dr. Johnson served on the Emergency Diseases Staff in Hyattsville, Maryland, for 3 years. From 1971 to 1973, he served as APHIS Assistant Veterinarian-in-Charge in Washington State. He then served 1 year respectively as District Veterinarian-in-Charge for California and Ha-

waii and Chief Staff Veterinarian for the Import-Export Staff in Hyattsville, Maryland. From 1975 to 1980, he was Chief Staff Veterinarian for the Brucellosis Eradication Program. In 1980, Dr. Johnson was the Senior Staff Veterinarian for the Cattle Diseases Staff. In 1983, he was appointed Director of the National Brucellosis Eradication Program and was appointed Associate Deputy Administrator of VS in 1986.

Dr. Johnson currently resides in Glenn Dale, Maryland, with his wife Anita. They have two grown children.

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#### DALE F. SCHWINDAMAN

Dr. Dale F. Schwindaman is the Deputy Administrator of the Regulatory Enforcement and Animal Care (REAC) unit. Previously, he served as the Regional Director, Western Region, Veterinary Services (VS) from December 1989 to October 1992. He was born and raised on a farm in Kansas. Dr. Schwindaman graduated from Kansas State University in 1953 with Bachelor of Science and Doctor of Veterinary Medicine degrees. He has also finished all academic work toward a Master of Science in Animal Science at the University of Delaware.

Before coming to APHIS, Dr. Schwindaman had a dairy practice in Wisconsin before entering the Air Force Veterinary corps for 2 years. He also worked as a field veterinarian with the Minnesota Livestock Sanitary Board working with the accelerated brucellosis program. His first assignment with APHIS was as the District Veterinarian in Michigan for 2 years. He was also the Area Veterinarian in Illinois for 2 years. After completion of the Veterinary Administrative Development Program, he was the Assistant Veterinarian in Charge of New Jersey for 2 years. He was then assigned as the Veterinarian in Charge of Delaware for 2 years before being transferred to the Headquarters Animal Welfare Staff as Chief Staff Veterinarian. Dr. Schwindaman was named the Senior Staff Veterinarian of the Animal Care Staff in 1975. In 1982, he was assigned as Senior Staff Veterinarian, Technical Assessment Staff. He also served on several temporary assignments of 30 days or more to the Deputy Administrator's Office, VS, and as Acting Director, National Program Planning Staffs (NPPS), VS. He participated in the first Senior Management Preparation Program in 1981-1982. Dr. Schwindaman served 1 year (1985-1986) as the Acting Assistant Director, NPPS, VS, and was named the Chief Staff Veterinarian of the Domestic Programs Support Staff in April 1986. In January of 1989, he was named as the Assistant Deputy Administrator for Animal Care, REAC, and he served in this position until December 1989.

#### ADDITIONAL INSPECTORS

Senator BUMPERS. Let me ask you, first of all, how you hired 160 new food inspectors, plant and meat and poultry inspectors?

Mr. BRANSTOOL. Senator Bumpers, if you recall in January of this year, in early or mid-January or thereafter, there was a serious outbreak of E. coli in Washington State, and it called attention to the fact that we need to make improvements in our meat inspection program.

It was anticipated at one time that the Senate would pass an appropriation with President Clinton's economic recovery package. That was not to be. It is not an easy thing for the Department of Agriculture to deal with that.

I understand that on the House side there is a measure pending now that would fund the additional 160 inspectors. We are hoping that is the case. If that is not the case, it will cause us great difficulty, and it would cause a reduction.

Senator BUMPERS. You have all that 160 on board right now, do you not?

Mr. BRANSTOOL. I believe nearly all. And by the end of May, I understand that that 160 should be on board and undergoing training.

Senator BUMPERS. Dr. Cross, how many plants do you have inspectors in?

Dr. CROSS. Senator, 6,400 plants.

Senator BUMPERS. 6,400?

Dr. CROSS. Yes.

Senator BUMPERS. What in name of all that is good and holy is 160 additional inspectors going to do in that many plants?

Dr. CROSS. Senator, it will do a tremendous amount given the shortage that we have been dealing with over the last few years. We actually were down over 500 inspectors. The 160 inspectors will go a long way toward resolving the extreme hardship that we were placing on our employees to try to do double and triple shifts to meet the statutory requirements of the meat and poultry inspection acts. So, it will go a long way.

Senator BUMPERS. What is an average number of inspectors in a plant? You have 6,400 plants. What is the average number of inspectors in a plant?

Dr. CROSS. We have about 7,400 inspectors, so the average is slightly more than 1 per plant. However, staffing varies tremendously, it could range anywhere from 1 to 50, depending on the size of the plant, whether it is a slaughter plant or a processing plant, the line speeds, the number of animals you are killing, et cetera.

Senator BUMPERS. How do you decide where to put those 160 inspectors?

Dr. CROSS. Basically, we have laws that we have to comply with. For example, in a slaughter plant we have to have inspectors to look at every carcass and every bird. If an industry grows, like the poultry industry, of course, is growing over the last 15 years, we have to supply those inspectors. The law requires that, and so we do not have a choice.

#### IMPROVED INSPECTION SYSTEM

Senator BUMPERS. Dr. Cross, I know it is your long-term ambition is quality food inspection, but let me ask you this question. Track I is to evaluate the existing system, as I understood Mr. Branstool's testimony. And Track II, of course, is to bring what he calls total quality management to the food inspection service.

Now, just a horseback guess right now, how do you intend to do that? What do you foresee as the ultimate total quality management of meat and poultry in this country especially?

Dr. CROSS. Senator, I think the inspection system of the future, hopefully the one that is going to be designed in Track II and agreed upon nationally, and perhaps worldwide, is going to be based on a strong foundation of risk—risks that we have data to support, and the risk judgments that we make, particularly in quantitative risk assessment. It will be based on a strong foundation of HACCP, hazard analysis critical control point.

As we design Track II, Senator, and try to determine the track that it is going to take, we are not going to set any preliminary parameters because we want to get all the input possible from all interested parties throughout the world. We want to use that input to design the most appropriate system possible. Even then our job is just one-half done because then we have to give credibility to that product.

In a few weeks I hope to go forward to Assistant Secretary Branstool to propose to him a mechanism for accomplishing Track



II. The proposal is going to have a foundation of risk and a foundation of HACCP.

Senator BUMPERS. And cost?

Dr. CROSS. Cost could be less, or it could be more, it is difficult to say. But we are going to be putting our money where it is going to be addressing public health more effectively than it is today.

#### IRRADIATION

Senator BUMPERS. I talked to one of my big poultry processors the other day, and I just pointed out—I said, you know, if something is going to happen, I do not know how it is going to happen or when it is going to happen, but it is going to happen. You will be happy to know he said, well, whatever is good for the country is good for us.

Of course, we are not just bigger in poultry, we are bigger by far than any other State in the country in poultry production. But I have always maintained when, you know, "60 Minutes" and all those people like to show those shows about how terrible the inspection service is, who do you think has the greatest interest in a good, clean product on the market? It is the industry. If you do not believe that, go ask Jack-In-The-Box. I promise you, they would have spent millions to avoid the catastrophe that befell them in the Northwestern part of the country, and that is true of most people in this business.

But I am sure it has been reported back to you, Dr. Cross, that this subcommittee has asked questions to USDA and the Food and Drug Administration about irradiating food and the considerable uproar that is causing among some environmentalists. But we have also been led to believe that irradiation may be the ultimate potential destroyer of all bacteria, particularly on meat and poultry, that would give us 100 percent assurance that the food is sanitary and safe. Is there anything to that?

Dr. CROSS. Yes, sir; the research on irradiation, as you know, is overwhelming. Almost 40 countries have approved it. Over 15 countries use it for meat and poultry. The data that has been collected in this country says that around 3 kilograys will kill 99.9 percent of the pathogenic organisms.

Senator BUMPERS. Say that again just for the record. At 3 kilograys you will kill 99.9 percent. What is a kilogray?

Dr. CROSS. It is a level of measurement for the amount of radiation that we expose the product to. It is a very low level, that is why we call it low-dose irradiation.

Senator BUMPERS. That is not the one the doctors jump behind the lead shield when they do?

Dr. CROSS. Absolutely not. As you know, we approved this level of irradiation for poultry last year on a voluntary basis. And as you also know, the poultry industry has elected not to use irradiation because they are concerned about the consumer reaction.

Our encouragement to the poultry industry has been along the lines of, giving the consumers a chance to decide. The product will be labeled as being irradiated, so let the consumer decide if they want that product or not.

Senator BUMPERS. Let me just say this. Until we put to bed the American people's concern about irradiated foods, we cannot start



down the road of using that as an inspection method. Now, I may be sold on it, and I would be sold on almost any method that I knew would guarantee the American people a perfect product. But I can tell you, there is still—I do not know anything about it. I did not even have high school chemistry, so I do not understand it. But I can tell you that there are a lot of people in the country that are genuinely and legitimately concerned about irradiation of foods.

Now, you do not have a dog in that fight. FDA is the one that has to decide whether or not a product may be irradiated or not, do they not?

Dr. CROSS. They approve the irradiation on certain types of products, and then we develop the regulation within FSIS as to approval for use on that product. But the initial approval of the petition for irradiating poultry had to come through Food and Drug.

#### RESIDUE MONITORING

Senator BUMPERS. I want to come back to that in just a moment. But Dr. Branstool, in his testimony, said that you test residues. Do you do that in FSIS? Do you test residues in food, pesticide residues?

Dr. CROSS. Yes, sir; the EPA and Food and Drug set levels for chemical residues and pharmaceuticals that are used in the industry, and we monitor the level of those residues in meat and poultry. We look at a little less than 2 million analyses per year for over 61 different residues.

Senator BUMPERS. How do you coordinate that with the Food and Drug Administration? Do they not do that?

Dr. CROSS. No; we have exclusive jurisdiction over meat and poultry products as far as residue monitoring is concerned. It is their jurisdiction to set the level of a particular pharmaceutical.

Senator BUMPERS. What if you found an excess of penicillin in carcasses of beef, what do you do?

Dr. CROSS. We would take appropriate action, retaining that product and increasing the monitoring of that particular establishment, and tracing it back to the herd. We have had good success, Senator, on residue monitoring over the years because, as you know, 10 years ago we had a serious problem with certain types of antibiotics in our food supply.

And last year when we reported, as we do annually, the residue violation level in meat and poultry was less than three-tenths of 1 percent. It is getting closer to zero every year. We have had good success in chemical residues. I hope I can come back to you next year, and every year thereafter, and report the same kind of success in reducing pathogenic organisms.

Senator BUMPERS. My father-in-law, who is a dairyman, every time a calf or a cow sneezed he used to say, well, give him a shot of Combiotic. And it used to drive me up the wall because I knew that was coming out in the food chain. But back in those days everybody was doing it.

Now, you are telling me that that has been greatly reduced, I hope?

Dr. CROSS. Absolutely, Senator. I think we can point to a success story that is a combination of industry actions and regulation in Government. The industry knew what they had to do, we knew

what we had to do, and we worked together to get to where we are today.

And the same thing has to happen with pathogens, starting on the farm and working all the way back through the system. It cannot be done just by pure regulation. The industry has to get involved. The innovators in the industry know that food safety is good business, and so they work with us.

#### MEAT AND POULTRY PLANTS

Senator BUMPERS. A couple of other questions, Dr. Cross. How many meat and poultry plants do you inspect?

Dr. CROSS. 6,400 total plants.

Senator BUMPERS. Do you not inspect canning plants, for example?

Dr. CROSS. If they are dealing with meat or poultry, yes.

Senator BUMPERS. But only meat and poultry?

Dr. CROSS. Only meat and poultry.

Senator BUMPERS. So, if Cambell Soup is making chicken noodle soup, do you inspect that plant?

Dr. CROSS. If it has chicken in it, we will have inspection in that plant.

#### USER FEES

Senator BUMPERS. And finally, Mr. Branstool, I am just talking about FSIS for the time being, I do not know how you are going to do this user fee. This committee has always pretty much resisted user fees. There is considerable resistance right now. I do not know where I am going to come down on it. But you are anticipating \$104 million from user fees?

Mr. BRANSTOOL. Yes; if that is what the Congress authorizes.

Senator BUMPERS. That is a big if, but we are so desperate to raise money—nobody likes a user fee, but if you ask us for another \$104 million just to raise your budget out of general revenues, you would have gotten almost as much reaction to that, too.

Mr. BRANSTOOL. Yes.

Senator BUMPERS. That is the way everything is around here. But in any event, the House reconciliation bill did not give it to you, did they?

Mr. BRANSTOOL. It did not.

Senator BUMPERS. Did they—well, you do not know the answer to the rest of the question. Neither do I. But in any event, let me just ask you this. What is the rationale for charging user fees for the second shift in meat and poultry plants? I mean, if it is a good policy, why not just charge them a user fee period?

Mr. BRANSTOOL. I suppose one could set forth a public policy that would indicate the user should be the payer of the cost if they, in fact, are the beneficiaries. It is a major hurdle and there will be major resistance even to the direction that we are suggesting.

We can start dealing with our fiscal problems by requiring user fees for second shifts. We thought that would be one way to gradually deal with the fiscal problem that we face, knowing that it is not a perfect solution either.

In some regards, the public in general are the beneficiaries of the user fees, whether it is for establishment of weights and measures or grain standards or any other standards that the Government assumes responsibility for, because we all benefit. But in these difficult times when we are already short on the number of meat inspectors that we need, this is the approach that we are going to recommend to the Senate and the Congress.

Senator BUMPERS. It is a nose under the tent approach, is it not? You know, I am not being pejorative about it, but that is what it is.

Mr. BRANSTOOL. I would say if our \$4.2 trillion deficit still looms over our heads, and if each of us has to assume a realm of responsibility to deal with that, that may be what we have to do. It is bitter medicine, and it will not be easy for us to administer or the Senate or the Congress to so vote.

Senator BUMPERS. Staff says that since you are proposing this to the Appropriations Committee and we are the ones who have to give you the money, I guess that comes under our jurisdiction. I was hoping they had to do it.

Senator Feinstein.

#### WHITEFLY AND MEDFLY

Senator FEINSTEIN. Thank you, Mr. Chairman. I have two questions. They pertain to pests—the whitefly and the Medfly. Would now be the time to ask them?

Senator BUMPERS. Absolutely.

Senator FEINSTEIN. Gentlemen, in 1991, as you know, a new whitefly strain invaded southern California. I am told that it has caused crop losses of about \$130 million, and related economic losses of about \$170 million to date. Between May 1992 and January 1993, the silver leaf whitefly caused additional crop damage and lost production amounted to another \$100 million. So, the whitefly continues to be a major pest problem in southern California, placing crops like cotton, alfalfa, fruit, and vegetables at risk.

The 1994 budget request for APHIS includes \$3.5 million for pest and disease management of the sweetpotato whitefly. How much of this money will be focused on the silver leaf whitefly, and what steps is APHIS taking to develop biological controls for this new whitefly strain?

Mr. BRANSTOOL. Mr. Chairman, Senator Feinstein, I met with a delegation of people from your State 3 weeks ago that brought me up to date on the severity of that insect. I would call upon Dr. Lonnie King, who is the Acting Administrator of APHIS, to give you some details on your question.

Senator FEINSTEIN. Thank you, Mr. Branstool.

Dr. KING. Senator, you are absolutely right about the sweetpotato whitefly and the variations. APHIS is asking for an increase in the line item for sweetpotato whitefly, and that increase will go for further trapping, further control, and additional methods development.

As you know, the integrated pest management concept is where we are placing emphasis in our efforts to control sweetpotato whitefly—the idea of using natural pests, in particular a wasp species, a native species. We are rearing those wasps, then taking



them and putting them out into the field as applications. It is difficult to keep up with the spread of that pest because it is moving so quickly.

We are also asking for a \$1.2 million increase in another biocontrol initiative in cooperation with the Agriculture Research Service, the CSRS, the Forest Service, and the Extension Service that will help us to look in a coordinated way at integrated pest management techniques for controlling sweetpotato whitefly.

Senator FEINSTEIN. Do you believe that amount will be adequate, because it is a very important problem? It needs to be addressed fast and hard.

Dr. KING. As nearly as we can tell, it will be sufficient. Those increases, if we could get them, would be very helpful. It is hard to project ahead, but with the States' help up and down the Southwest, I think that amount would be adequate.

#### MEDFLY

Senator FEINSTEIN. Thank you. The second question, the Medfly, known to you, I guess, as the Mediterranean fruit fly, probably has been one of the most destructive pests and also one of the most difficult. As you know, there has been aerial spraying which has caused enormous problems in California urban communities and huge public protests. I know that currently you are combating localized outbreaks in Los Angeles, San Diego, and Santa Clara Counties.

Earlier this year the Department announced that it did not have adequate funds to assist the State in carrying out the Medfly eradication program. What assurances can you give me that the 1994 funding is adequate to cover the costs of Medfly eradication next year?

The Medfly is now indigenous, I suspect, in California, and so it is going to have to be a constant barrage to get ahead of it. So, I am concerned that this budget really reflect the enormity of that priority.

Dr. KING. I am very empathetic for you, coming from California, and I know how difficult the problem is. We do not think that it is an endemic pest. We think that there have continued to be reinfestations, and the evidence that there are localized or focal points of activity in the Medfly would suggest that it is not endemic, that it is entering from outside the United States.

We do have adequate funding to carry out the program for the rest of 1993 through CCC funds, emergency funding that the Department and APHIS received. So, we are in good shape for this year.

The good news is, with a lot of ongoing trapping and survey delimitations, we are finding no new focal points of outbreaks. So, it appears that we are closing in. We are using, as you said, pesticides, in combination with the release of sterile flies.

Based on the way things are going right now, I think that what we have right now in the way of emergency funds should carry us through nicely to the end of the year. And hopefully, without any nasty surprises, the funds will be sufficient for the end of this year and perhaps even the start of next year.



## STERILE FLY PROGRAM

Senator FEINSTEIN. Could we talk a little bit about the sterile fly program? I think the last time I looked there was a lot of breeding going on in Hawaii and then bringing the flies back. But I think there were like 500,000 flies a week. Has that been increased in size?

Dr. KING. Yes; it has been. That has always been one of the issues, namely, how quickly can we increase supplies in response to sudden increases in demand. The facility in Hawaii is now in good shape to increase the number of fly releases and the production of those flies as needed.

I think that if we got into more of a major problem, consideration would be given to increasing production of steriles raised in Hawaii, since the Medfly is already established there, or obtaining additional flies from other sources.

Senator FEINSTEIN. And how many are you breeding a week? What is the goal there?

Dr. KING. 500 million flies per week.

Senator FEINSTEIN. 500 million. Was it 500 million last year? Was that the same amount? I know it was 500 something.

Dr. KING. We started out at about 50 million, and it takes a month and a half to get the colonies up and going. So, we have increased it substantially since the facility began operation.

Senator FEINSTEIN. My concern is that there be enough steriles that they be able to be introduced promptly, and that the State not have to go to aerial spraying. Can you tell me with specificity that will be the case?

Dr. KING. I would hate to make that kind of projection. Where we are right now, we are in good shape. If we would have some other major outbreaks in other parts of California, we could have a real problem producing sufficient flies to take care of all of the new outbreaks.

Senator FEINSTEIN. Mr. Chairman, I might just say that these two pests are kind of, you know, top priorities for the State. It would be very important, I think, that the Department really be able to cope with them both with the sterile program or the APHIS program, or else California has big problems with pests coming up this year.

Senator BUMPERS. What was the last outbreak of fruitfly you had, Senator Feinstein?

Senator FEINSTEIN. Just a week or so ago, it seems to me, I read about a small outbreak in southern California. You see, it is cropping up in the inner-city areas. And if it is bad, if the traps reveal enough of them, then they go to a stripping program or they go to an aerial spraying program. The aerial spraying program—there is hell to pay for it because you spray everything.

Senator BUMPERS. Mayor Brown found out about that.

Senator FEINSTEIN. Yes; anybody would. So, the key to it really is an aggressive sterile program, I think. Do you not agree?

Dr. KING. Yes; and the outbreak you were talking about, Senator, was the Mexican fruit fly, as opposed to the Mediterranean fruit fly. It is a different variety. The eradication techniques are similar, but there are more fruit flies than just the Mediterranean.

Senator FEINSTEIN. But you would use that. You would use the sterile program there, too?

Dr. KING. There are several techniques, and we are really trying to emphasize the use of sterile in the Mexican fruit fly program, actually taking care of that problem in Mexico before it comes across the border. So, we are increasing our surveillance along the border, and also increasing activities in Mexico in cooperation with the Mexican Government to take care of the problem there so that it does not enter the United States across the border.

Senator FEINSTEIN. Thank you. Mr. Chairman, the point I wanted to make is that these are my priorities, to see that those are met. Thank you.

#### BOLL WEEVIL FUNDING

Senator BUMPERS. Thank you, Senator Feinstein. Dr. King, what is the funding level for all of your boll weevil programs?

Dr. KING. The figure we are proposing for fiscal year 1994 is \$9.9 million, Senator Bumpers.

Senator BUMPERS. \$9 million. You are asking for a \$4 million increase in that? It was \$14 million. It was \$13 million, now you are asking for \$9 million for next year.

Dr. KING. It has been reduced from last year.

Senator BUMPERS. Can you justify the cut? I am happy to give you the cut you were asking for, but coming from a cotton State, I worry about it a little.

Dr. KING. We do too, and let me explain that if I might. When we were developing the 1994 budget for boll weevil, having freed Virginia, North Carolina, South Carolina, moving into parts of Alabama and Georgia, it looked like there would be decreasing activity. However, since we developed our budget figures and sent them forward, two things have happened. No. 1, Alabama cotton producers went ahead and passed two referenda that would enable them to initiate boll weevil eradication programs in mid-Alabama and north Alabama. At the same time, Texas recently passed a law that will enable their cotton growers to begin participating in boll weevil eradication through referenda.

Unfortunately, both of these activities happened after we developed our budget. And you are right, it has been a very productive program. We have moved along very well, and we are excited about these other States wanting to be involved. When we developed the budget, we did not yet have that information.

Senator BUMPERS. Last year we had by far the biggest crop of cotton in Arkansas we have ever had. There was just one problem with it that kept our farmers from making enough to retire. And do you know what that was? They had to spray about three times more than they normally would have. It just killed them. And I talked to one farmer who told me he had 1,600 acres of cotton, was going to make 3,500 bales, which is well over 2 bales to the acre. That is just unprecedented. And planned to lose \$250,000. There was a time when if you made two bales of cotton to the acre you could retire.

And that is the reason I ask you about the boll weevil is because they had to spray so much last year. We had a fairly wet summer.

Of course, boll weevils seem to thrive in wetter weather. I wish we could irradiate cotton. [Laughter.]

#### PESTICIDE USE

Let me ask you another question which I think everybody thinks about, and that is I really enjoy fresh fruit. I buy every plum knowing it probably is not going to be fit to eat because they picked it 3 weeks before it was ripe, and I have to let it sit around the house until it ripens. It just drives me crazy. And I know by that time it probably has gone about half-rot and it will not be good, but I cannot resist this, but that is not my point.

That did not cost you anything, incidentally. It just irritates me that everything is picked so long before it ripens. You know, I keep buying cantaloupes. I am just like Charlie Brown with Lucy holding the ball for him every fall. I know it is not going to be fit to eat, but I cannot resist it. And I know there are going to be about 2 months in the summer when they are fit to eat.

But how can I be sure, as I wash a peach or a plum and eat the peeling as my mother taught me to do—she told me that is where the nutrition was. I do not know whether that is true or not. But be that as it may, what assurance do I have that that is free of pesticides?

Mr. BRANSTOOL. Senator Bumpers, my oldest son, Marshall, raises peaches and apples, and it is important that he spray. Otherwise, there would be no peaches and apples, at least in my State of Ohio. I know invariably that his customers—he sells retail, tree-ripened. And they will say, do you use chemicals? And the answer is yes, that he does, but he follows the label as is set forth by the Food and Drug Administration.

And, you know, it is one of those things that there are those who believe that no insecticide should ever be used on any fruit or vegetable ever. But the fact is, if they are to grow, and as you indicated with your cotton crop, last year without a spray program it would have been a disaster I would assume.

And so we have to trust the best science that we know and the best science that is available. And so the assurances—I do not know what assurances an honest person can state other than we trust that the research that has been done by the Food and Drug Administration when they approve labels for materials that will help us cross this bridge until we learn more about biological control and other possibilities that will alleviate the need for additional continued spraying.

Senator BUMPERS. The Plant Health Inspection Service can, No. 1, almost assure me that, yes, there are insecticide residues on that plum or peach or apple, and they cannot assure me that those are not damaging to my health. Is that correct?

#### PESTICIDE DATA PROGRAM

Mr. BRANSTOOL. Within the Agricultural Marketing Service, we are doing random sampling and testing for pesticide residue in fruits and vegetables. Dr. Clayton, I believe, could give you a more definitive answer.

Senator BUMPERS. Dr. Clayton.



Dr. CLAYTON. Senator, I think your question concerns our pesticide data program which is carried out in the Department by the Agricultural Marketing Service. That program has been up and running now for a couple of years. However, last year was the first year we were running close to full speed.

We expect this year to collect close to 9,000 samples in 9 States across the country. These States represent about one-half of the U.S. population. Through this process we are developing nationally representative, statistically valid results which portray actual information on the levels of residues which remain on fruits and vegetables in this country.

One important aspect of the program is that it gathers samples as close to the retail level as possible. Obviously, we do not want to be in grocery stores disrupting shoppers in the produce department, but we do take samples at wholesale level and at warehouses of major grocery chains, as close as we can get to consumption.

The results we have obtained thus far demonstrate that while residues appear to some degree on perhaps one-half of the fruits and vegetables we are testing, those residue levels are exceedingly low. We are using testing equipment that allows us to find residues in parts per billion—these are very minute fractions.

In the first half of last year we gathered several thousand samples, and found only a few instances where the residues were at violative levels. For the most part, those cases involved a pesticide that was not registered for use on the tested commodity, but was registered for use on some other commodity.

Only very rarely do we find a residue which exceeds a tolerance as established by the Environmental Protection Agency.

As you may recall from discussions in previous years, our reasons for advocating this program were twofold. One was a concern that EPA, in its process of tolerance setting, lacked actual residue data, and was forced to deal only with theoretical maximums of exposures. There was a need for some actual residue data which could be used by EPA in their residue tolerance setting.

Senator BUMPERS. Dr. Clayton, let me interrupt you at that point. Whose call is this? No. 1, I assume that unless EPA has signed off on it, this insecticide would not have been used. In other words, it would not be on the market and the fruit growers and the vegetable growers would not be using it if EPA had not signed off on it.

And you are doing these inspections. Do you work hand-in-glove with EPA about what a permissible residue is on fruits and vegetables?

Dr. CLAYTON. The point of this data gathering project is to generate unbiased data for EPA to use in setting tolerances.

Senator BUMPERS. What do you do when you find an excess of tolerable limits that have been sent out by EPA?

Dr. CLAYTON. That becomes a regulatory issue. We turn those findings immediately over to the Food and Drug Administration which is charged with the responsibility of pursuing violations of established tolerances.

Senator BUMPERS. Did you see the article this morning in the Post on EPA?

Dr. CLAYTON. I am sorry, I did not see the article.



Senator BUMPERS. Twenty years after the environmental movement began to take hold in this country, there are still literally thousands of products and foods and so on which EPA does not know precisely what is going on so far as chemicals are concerned. They cannot guarantee the American people that the food chain is safe and so on. Now, that is one of the things that sort of piqued my curiosity about this. And I suppose that this country is left, Congress is left and therefore the people are left, with this decision: Either you accept some limit of pesticides, insecticides, herbicides, you allow some limit, even though it may be debilitating to one's health or to the Nation's health, or the fruit and vegetable shelves are going to get mighty scanty?

Dr. CLAYTON. Certainly there is a tradeoff of the sort you describe. I am not sure whether it is quite as dire as you suggest.

Senator BUMPERS. But there is a tradeoff of some degree going on, is there not?

Dr. CLAYTON. Yes, there is a tradeoff. However, there is one additional point I would have to raise. There is a tremendous amount of work underway to find alternatives to the use of pesticides, whether it be through genetics and plant breeding, or through biological controls such as Dr. King has talked about. It seems to me that the production industry has begun looking very seriously at alternatives to chemicals.

Chemicals are expensive, as you pointed out in your discussion of cotton growers. Producers are looking for alternatives.

#### ALAR

Senator BUMPERS. Now we made a decision on Alar. How was that decision made? Was it just decided that that has been definitively determined to be injurious to the health and therefore should not be used? In other words it is an impermissible problem for one's health? Were you around with Alar?

Dr. CLAYTON. Yes, I was. The decision on Alar was a combination of science and public hysteria, if I may characterize it that way. There was a lot of misrepresentation of the situation, and there was also some element of science. I am not sure that it was strictly a reasoned decision. Certainly, it was exceedingly disruptive to the apple industry.

Senator BUMPERS. We had testimony last week from another agency or service from the Agriculture Department dealing with a sort of hormone that you give cows. You are familiar with that? I think the point was made it was something that was not detectable in milk. Now, you can detect an antibiotic in milk. But apparently, this hormone which is designed to provide considerable beef increases, growth in cattle as a hormone cannot be detected in milk.

So the question then became is it worth requiring labeling? If a store is going to sell milk from cows that have been treated with this hormone, should there be a sign up there? Should there be?

Mr. BRANSTOOL. I think the question of BST or any other advancement we make in agricultural science, you know, this science should indicate how it is used, providing it is good science. Now, with the BST question, BST is produced naturally in the body of a mammal, and this is a synthetically produced BST that can be

injected, and records and studies indicate that there is possibly a 10- to 20-percent increase in milk production per cow.

As you say, the information I have read and received is that you cannot tell the milk that has been produced by a cow receiving the synthetic hormone compared to one that has not. So the labeling thing will get extremely difficult if it is something that cannot be detected, whereas antibiotics in milk can be very easily and very accurately identified and detected, as to source, as well.

And so I think science needs to rule on whether the BST should be used. Some within the dairy industry are concerned about the increase in milk production that could affect the price of milk and the disruption of milk marketing if there would be a huge increase if it is widely accepted by milk producers. You know, it seems to me that rather than deny the science, if we are concerned about overproduction, I mean, try another approach than that.

You know, 40 and 50 years ago we could have been concerned about the development of hybrid seed corn, something unheard of 50 years ago, synthetic nitrogen, artificial insemination in dairy cattle. You know, those things have allowed our country to feed our people with an abundance at a reasonably priced cost of food.

Senator BUMPERS. Mr. Branstool, what we are talking about though is a little different. I think with hybrid corn, for example, that was not accomplished with a chemical, was it?

Mr. BRANSTOOL. It was not.

#### FOOD ADDITIVES

Senator BUMPERS. We are talking about food additives. And we have discussed this with the Food and Drug Administration, we talked about this with ASCS and the Agricultural Research Service the other day, we talked to FDA about labeling. If we are going to put calories, fat content, and everything else on foods, I am curious as to what the justification is for not also saying this has had a certain—this fruit, for example, has been sprayed with insecticides, and what EPA and whoever—APHIS—has determined to be acceptable levels. But people would at least have a choice.

I forgot to ask the Food and Drug Administration the other day, as they allow more irradiation of foods—I am not saying this is a good idea or bad idea, I am just saying it is still controversial in the minds of people. It may just be people who are raising Cain about it and it may be perfectly safe. I do not know. But I know it has a nuclear content which worries me. And so the question comes up at such times we start licensing the selling of irradiated fruit and vegetables, should we put up a sign saying it has been and let people make their own choice.

But the question I was going to say I forgot to ask, we allow irradiation of strawberries now, but do we—for example, is there anything that would require anybody to label a strawberry that went into a can or jar or whatever, a tin of Dannon yogurt? You could be eating yogurt and it would have irradiated strawberries in it. You would not know it under today's labeling laws, is that not correct?

[No response.]

Senator BUMPERS. I probably do not have the time to go into this as in-depth as I would like to. We will probably submit some additional questions on this issue.

#### PROCESSED POULTRY

Now, there is one other thing, Dr. Cross, that I wanted to ask you. Testimony today is that you will propose to mandate the use of safe handling and cooking labels on raw meat and poultry products sold at food service and retail level. My first question, before we get to that, is what percentage of poultry, for example, is further processed and what percentage is sold on the fresh market, if you know?

Dr. CROSS. I would be guessing, Senator, but I would say a high percentage of the poultry is sold fresh—probably 40 to 50 percent. But that is a guess. We do not maintain records on percentages sold as fresh and cooked.

Senator BUMPERS. There is virtually no threat in further processed—for example, if you see a Purdue's roasted chicken or chicken wings and so on, that has all been cooked, and therefore the chances of that having a salmonella on it are minimal, are they not?

Dr. CROSS. The threat is perhaps even more significant on a further processed product, Senator, because if it is sold as ready to eat then pathogens could be on that product and would not be killed through followup cooking. That is the reason we have a strong monitoring program with a zero tolerance on pathogens on any ready-to-eat product of meat and poultry.

#### IRRADIATED FOODS

Senator BUMPERS. OK. Incidentally, I was thinking about radiation, irradiating foods again. Would it be practical to irradiate foods after they have been cooked?

Dr. CROSS. Yes, sir; if they are in their final consumer package. And that is what we require for poultry for irradiation. It has to be in its final consumer package. In other words, it has to be in the package that is going to be placed in the meat case, because if we did not do that the product could become recontaminated at some other point in the marketing chain and have new pathogens on the product. There would not be any organisms on that product that would be so-called competitors of those pathogens, so they could even grow faster.

Senator BUMPERS. One of the things this subcommittee is charged with is finding out what everything costs. What is it going to cost to label raw meat and poultry products insofar as safe handling is concerned?

Dr. CROSS. We do not yet know, Senator, because we do not know how we are going to ask the industry to label. We have an agreement with Food and Drug as to what we should say, cooking temperatures, refrigeration, holding, et cetera, and we have a lot of dialog going on now with industry and the consumer groups.

We will be doing focus group research this summer to determine just how we should deliver the message to the consumer. Whether it should be on the package, at point of purchase, on video, or a



combination thereof? So we really cannot give you a definitive answer today as to what it would cost, but we think the cost would be relatively low.

Basically, I think the industry is quite anxious to put safe handling labels on meat and poultry. Not warning labels, safe handling labels.

Senator BUMPERS. As I work my way through this and sift my own thoughts about irradiating foods, I have always maintained—and of course, I have defended the poultry industry maybe at times when I should not have. Of course, as I say, 1 out of every 12 people in my State are involved in this industry. But I have always said if you cook this food you do not have a thing to worry about. If you wash it and cook it you certainly do not have anything to worry about, and that is the rule at our house, if you are dealing with fresh poultry or fresh meat—I am sorry—fresh fish.

Very little fish is inspected in this country, right?

Dr. CROSS. Correct.

Senator BUMPERS. I have been sick on fish a lot of times. I have never been sick on poultry that I know of.

Senator FEINSTEIN. Would you yield on that one question?

Senator BUMPERS. Yes; I would be happy to. Yes; or more, if you prefer.

#### CONTAMINATED FOOD

Senator FEINSTEIN. I have been trying to remember. I was campaigning last year in the Central Valley. And I ate chicken at a chicken dinner. And the chicken was contaminated with something that was reportable to the Health Department with a long name. And I was really laid low. I was told when I looked into it that this is a fairly common occurrence with chicken. Do you happen to know? It is a very long word.

Dr. CROSS. Was it *Campylobacter*?

Senator FEINSTEIN. That is exactly what it was.

And it really knocked me for a loop. But is it that common?

Senator BUMPERS. I wish you had not come this afternoon. [Laughter.]

Dr. CROSS. That is a common pathogen on meat and poultry, but more so on poultry than meat. But it is one that is easily killed during cooking.

Senator FEINSTEIN. If it is cooked enough?

Dr. CROSS. That is right. In our pathogen reduction plan we are not going to totally rely on the final cooking step to do the job. We are going to put a plan in place that starts on the farm and goes to the table. But let me make one comment that the chairman mentioned. Mr. Chairman, your generation and mine probably knows that we should not take that chicken off the grill and put it back on the same plate. But I am afraid some of the younger generations do not realize that.

We have a lot of educating to do to define the consumer's role in safety. It has to be evident to them. They have to know that they have a role.

Senator FEINSTEIN. So in other words you are saying cooking things at the right temperature for long enough is really extraordinarily important?



Dr. CROSS. It is probably our most important critical control point.

Senator FEINSTEIN. Both, I guess, with the E. coli from the hamburger—

Dr. CROSS. Absolutely.

Senator FEINSTEIN. If it is cooked at, what? 155 degrees?

Dr. CROSS. If it had been cooked to 155 degrees, we would not be talking about the outbreak today.

Senator FEINSTEIN. And the chicken should be cooked for?

Dr. CROSS. About 160 degrees for chicken.

Senator FEINSTEIN. Thank you, Mr. Chairman.

Senator KOHL. Senator Feinstein, was that a Republican cook-out?

Senator FEINSTEIN. Actually, it was a nonpartisan cookout. [Laughter.]

Senator BUMPERS. Dr. Cross, that brings me to my next question. I understand that you have still not been able to find the slaughterhouse that the contaminated beef in Washington came from, is that correct?

Dr. CROSS. We found the supplier to Jack-in-the-Box, and of course, that particular supplier had numerous suppliers, 30 or 40 suppliers. But no, we have not been able to track it back to the individual slaughter plant or to the individual herd, which is not very surprising given the rarity of this particular organism.

#### COOKING REGULATION

Senator BUMPERS. Along Senator Feinstein's questioning, have you not also raised the level that you say beef should be cooked at in these fast food hamburger places from what was originally 150 to 165 or some such thing?

Dr. CROSS. The Food and Drug Administration raised their model code from 140 to 155 just following the outbreak. We have a regulation in clearance that will raise it to 155 degrees for precooked and fully cooked patties in Federal establishments. But our recommendation to the consumer in the home is 160 degrees, and the Food and Drug recommendation to fast food establishments is 155.

#### PIZZA

Senator BUMPERS. Did you see the pizza story this morning?

Dr. CROSS. No; I missed that.

Senator BUMPERS. In Florida?

Dr. CROSS. Bad?

Senator BUMPERS. Go home and read that one.

Senator FEINSTEIN. What happened?

Senator BUMPERS. 300 people, four hospitalized, from eating pizza, and they think contaminated meat on the pizza. It seems to me that that is becoming more prevalent. Or maybe the press is just doing a better job of reporting those things.

I will conclude by asking a question, and then I will submit the rest of my questions for the record and defer them to Senator Kohl. This is a sort of a convoluted story, but on May 17—Dr. Cross, did you watch that series of shows that CBS did?

Dr. CROSS. Yes, sir; I did.

## KELLY MEMO

Senator BUMPERS. On the Evening News? Erin Hayes, on that show, talked to a Dr. W.S. Horne, Deputy Administrator of FSIS, inspection operations, about slaughterhouse inspections. Dr. Horne was asked about a memo presumably sent by a regional supervisor to his inspectors last March directing them to, quote, slow down the lines, stop operations if you have to, to keep meat clean, unquote. It was reported that after industry officials complained about this slowing down of the lines, the memo was yanked back by Washington.

Let me just stop right there, there is more to the question, and ask you to comment on that.

Dr. CROSS. I am glad you asked that question, Senator, because the Kelly memo gets more famous every month.

Senator BUMPERS. What did you call it?

Dr. CROSS. The Kelly memo.

Senator BUMPERS. Kelly?

Dr. CROSS. Dr. Kelly wrote the memo.

Senator BUMPERS. OK.

Dr. CROSS. He is an area supervisor in Topeka.

Let me start back, if I can, a couple weeks and months prior to that. After the E. coli outbreak, I decided that I wanted to send out special review teams to make unannounced visits to maybe 90 to 100 plants. I asked all five of our regional directors to go to Lawrence, KS, so they could agree on how these review teams were going to function and what they were going to be looking for, primarily fecal contamination.

Dr. MacDougal, who is a deputy to Dr. Horne, was at that meeting. When they came back from the meeting, Dr. Horne, who is the Deputy Administrator for all inspection operations, wrote a memo summarizing what was agreed upon in the Lawrence meeting.

In the meantime, the five regional directors came back and called the area supervisors. Dr. Kelly took it upon himself to write a memo based on what he thought his regional director had told him. And so two memos were tracking to the field at the same time, one to 1 area out of 27 and Dr. Horne's memo to the entire country.

As soon as Dr. Horne and I found out that those two memos were tracking we immediately asked Dr. Kelly to rescind his memo, because he was just one area supervisor sending a memo which reflected what his regional director told him over the phone. Dr. Horne was sending a memo that reflected national policy. That was very simply why that memo was rescinded. I did not want two memos on the street.

If any other regional director or any other area supervisor had sent a memo, I would have immediately had that one rescinded, too. Because we have to have one policy.

Senator BUMPERS. Well, when he was asked, apparently, I guess referring to Dr. Horne, why—there was something—there was a later oral order that came down was there not? Let me see, just a minute. This order that came down rescinding that first order was oral, was it not?

Dr. CROSS. That is right. Dr. Horne will have to tell you for sure. He is here. But I would assume he picked up the phone and told Dr. Kelly to rescind his memo.

Senator BUMPERS. And did what?

Dr. CROSS. To rescind his memo. Just called him on the phone, or called the regional director on the phone.

Senator BUMPERS. According to the CBS story, it said when asked why this could not be done in writing rather than orally, he said we prefer that he not do so so it does not conflict with national policy. Where is Dr. Horne?

[Dr. Horne raises his hand.]

Senator BUMPERS. Dr. Horne, why do you not tell me your version of it? Just stand where you are and let the record show that this is the Deputy Administrator of the Food Safety Inspection Service. And his name is W.S. Horne. Is it Mr. Horne or Dr. Horne?

Dr. HORNE. Dr. Horne.

Senator BUMPERS. Dr. Horne, why do you not just tell us.

Dr. HORNE. I think Dr. Cross described it very well. We had two memos that coincidentally went out on the same date, March 2. I wrote one of the memos, which was a nationwide instruction to all inspectors in the field and all supervisors in the field.

Coincidentally, Dr. Kelly wrote a memo the same day. His memo was faxed out to several of the plants because they had fax machines in his limited area of responsibility, which is two States, Nebraska and Kansas. So the information went out to many of the plants and several of the inspectors before my memo got out to the rest of the plants.

When I heard about the original memo from Dr. Kelly, I consulted with Dr. Cross, and we decided the best thing to do was ask him to rescind that memo because without a doubt it was going to result in some inconsistency in the way it is applied.

So I called the regional director, who was the supervisor of Dr. Kelly, and asked him to rescind the memo, which he did.

Senator BUMPERS. What was the gist of what Mr. Kelly's memo said?

Dr. HORNE. First of all, the memo was addressing the special reviews that Dr. Cross had ordered. It was asking his people to be prepared for these special reviews. The zero tolerance which has gotten so much publicity is somewhat of an incidental part of that memo. He was saying, for instance, if the udders of cows were not properly trimmed off, certain actions should be taken.

The problem came about then in assuming that if the plant did not respond, then you should take a further stronger action, and if they still did not respond, you should take an even stronger action. The assumption was that the plants were not going to properly respond to this requirement, and that was part of the objection to the memo.

Senator BUMPERS. I tell you, I am not at all sure yet just exactly what all happened here. We will submit a question in writing on this. Your explanation sounds plausible, Dr. Horne, but let us submit this to you in writing and you respond to it, if you please.

Senator Kohl.



## MILK MARKETING ORDERS

Senator KOHL. Thank you very much, Mr. Chairman. It is good to be here with you and Senator Feinstein this afternoon.

I would like to ask Mr. Branstool several questions. Mr. Branstool, I know that you are well aware of the problems of the upper Midwest concerning milk marketing orders. The system is based, as you know, on an outmoded notion that it makes sense to require a higher price to be paid for fluid milk based on the distance from Eu Claire, WI.

Many, many years ago, earlier in this century, before modern transportation, it might have made sense in order to encourage growth in dairy production in milk deficit areas far from Wisconsin, but it no longer makes sense at all, and the CBO estimates that it costs the American taxpayer about \$1 billion over 5 years to continue the system the way it is.

Because it is such an outmoded system, Mr. Branstool, this is one of those programs that gives agricultural programs a bad name in the eye of the American taxpayer. So I would like your personal assurance, if you could give it to me, that you will take a fresh look at the milk marketing order system and will consider making some necessary changes in that system. Would you be prepared to tell me that?

Mr. BRANSTOOL. Mr. Chairman, Senator Kohl, I do not know if I would be prepared to tell you that exactly in so many words, but I could give you a philosophical view of what I think as I am in the process of learning about milk marketing orders as well as the other marketing orders.

You know, there was a reason originally for milk marketing orders. You are dealing with a perishable farm product. The production will fluctuate, depending to some degree on the season of the year in different regions and parts of the country. And so in order for milk to reach its destination, whether it is to be used as fluid milk or processed milk as cheese or powdered milk or whatever, it seems to me there has to be a system in place to facilitate the movement of this perishable product.

Now, I know that in certain parts of the country there seems to be some—or at least some elements in certain regions of the country that feel that the milk marketing orders are not working as best as they possibly could. I would say to you that I want to work with the people in the agricultural marketing service to make sure that we are being as fair and reasonable as possible.

You know, the commodity groups, they themselves submit to the Department of Agriculture what they believe is a mechanism to orderly market their milk. A good share of the suggestions come from producers and their cooperatives themselves. And so I know that some feel there are some inequities, some feel that certain parts of the country are placed at a disadvantage, but it is a very complex system.

And even if you make certain adjustments, then it can cause, for the increased production of milk in States like Texas and Florida where you have high population centers and if—if the milk marketing pricing structure can get too high in one region then it would



be inducement then to produce milk in other areas which then can aggravate the problem of over production.

So it is very complex. I have a great deal to learn about it. But I would say to you that I believe they should be as fair as possible and that the consumers—or that the producers themselves have a great deal at stake as to how they are formed.

Senator KOHL. Well, I want to just follow up on what I think is the constructive position you are taking, that there is a good deal that we, and you, need to learn about this so we can be as equitable as possible in making whatever changes need to be made.

I have spoken to Secretary Espy on a number of occasions, and he has expressed his intention to specifically include the issue of milk marketing and milk pricing as part of the series of agricultural issues forums that are being planned. Can you tell us if the USDA is still planning to include milk marketing order issues in its series of agricultural forums, and if so, do you have any idea as to when they might be occurring?

Mr. BRANSTOOL. Well, Mr. Chairman, Senator Kohl, right now going on is the meat and poultry inspection hearings. The first one was held in Dallas. There will be hearings on nutrition and hunger in our country. I cannot tell you with any degree of certainty if milk marketing orders will be a subject individually for forums, but I know Secretary Espy is concerned about farm income. Milk marketing orders greatly affect farm income.

I would also say to you that I know from Ohio many large numbers of dairymen are struggling financially, and my own view is that we need to take a look at this. They work 7 days a week, long days, they work hard, huge investments, and many of them are just getting by.

Senator KOHL. I represent the largest dairy State in the country so I have a particular interest in this. People in the dairy industry are hurting. I think that we owe it to them to have at least this issues forum on milk marketing orders. I think I heard you say something like that yourself.

Could you get back to me just as soon as possible and indicate to me, whether we are going to have that forum at some time, hopefully as early as possible? Could I hear from you on that?

Mr. BRANSTOOL. I believe the answer is yes. Now—and I just think out loud with you—as milk marketing orders are worthy of discussion, there may be other elements concerning farm income that might be included in that. You know, are you asking me for specifically forums only on milk marketing?

Senator KOHL. I just want to be certain that at some point in the reasonably near future the milk marketing order system is going to be reviewed in a public forum with the endorsement of the USDA.

Secretary Espy said that this was going to happen. I would just like for you to go back and confirm that and get back to me, and hopefully with some indication as to when.

Mr. BRANSTOOL. If Secretary Espy has indicated that that will happen, I will do my part to see that it does.

#### DAIRY PLANT INSPECTIONS

Senator KOHL. All right. Thank you.

Mr. Branstool, over the past couple of years there have been back and forth discussions between the State of Wisconsin and USDA regarding duplication of dairy plant inspection efforts in Wisconsin. We wrote you a letter earlier. At this time, both the State and the USDA inspect dairy plants in Wisconsin.

We would like to believe that some headway is going to be made on the concept of allowing the State to perform the Federal inspection responsibilities for dairy plants, at least on a trial basis so as to eliminate unnecessary duplication, both USDA and the State inspecting the same plants.

Can you tell me whether you have given this issue any consideration and what your opinion is as to the possibility of making some progress on resolving this duplication?

Mr. BRANSTOOL. Senator Kohl, I am aware of the concern which you have raised very clearly. If you would allow me to defer to Dr. Clayton, I believe he can shed more light on that.

Senator KOHL. All right.

Dr. CLAYTON. Senator, you are quite right. The issue has been around for the last couple of years. As a starting point, I believe we share with the folks in Wisconsin the view that we ought to place as little burden on industry as possible. There is no argument about that.

Our difference of view involves exactly how to resolve the issue. As you may recall, we did some preliminary work on this issue late last summer. We conducted an initial survey of milk producing States including Wisconsin and others, to gauge their interest in becoming involved in either plant inspection or dairy grading.

The results of that survey were mixed. In hindsight, we learned that we did not ask all the right questions. We are now in the process of conducting an expanded survey to get the information we need to resolve this issue once and for all.

We hesitate to transfer the function because dairy plant inspection is kind of a filler activity for our dairy graders. Dairy grading tends to be very active on Mondays and Tuesdays, Thursdays and Fridays. Wednesdays are a slow day. Dairy grading is a user-funded program, so we try to be efficient.

I have got to pay those inspectors whether they are grading dairy product or not. Plant inspection allows us to keep our dairy graders fully occupied. If graders have downtime, there will have to be a higher grading fee.

To round out the story, we are gun-shy on this program and want to be very careful in doing the analysis. As you may recall 2 years ago we had to ask Congress for \$1.25 million to overcome a deficit in our dairy grading program. We were very uncomfortable in having to do that.

Therefore, we are concerned about any change we might make in plant inspection, because it is so closely tied to dairy grading. Any changes must be well reasoned and something which we can support financially over time. We are developing the information that will let us make an informed decision. I have kept the State of Wisconsin advised as to the status of their proposal, and we intend to work with them in resolving this issue.

Senator KOHL. I appreciate that, and I appreciate your desire to work it out carefully and prudently. I think that is fine.

As you know, oftentimes in government that means that things go on forever. So at the risk of encouraging you to say something you do not want to say, we hope that within some reasonable period of time—say 3 months, perhaps 6 months—to come to resolution of this issue?

Dr. CLAYTON. Yes; we can.

Senator KOHL. Is that reasonable?

Dr. CLAYTON. Yes; it is reasonable.

Senator KOHL. Sometime between 3 and 6 months, is that fair?

Dr. CLAYTON. Yes; that is fair.

Senator KOHL. All right. I do appreciate that very much.

#### USER FEES

One final question in followup of what Senator Bumpers asked about earlier, Mr. Branstool, and that is user fees on meat inspection plants. The President's budget proposes, as you know, that user fees be charged for meat inspection and that that fee be paid by the slaughterhouse and packing plants that are being inspected. I am not convinced that this would be good public policy.

I have always understood there to be a general rule of thumb that if an activity such as inspection is for the benefit of the consuming public, then the costs ought to be borne by that public. However, if the activity is primarily for the benefit of the industry, then it ought to be borne by the industry.

Now, it seems very clear to me that in the case of meat inspection the primary beneficiary is the public. I know this was before your time, but can you tell us on what basis the decision was made to propose user fees for meat inspection and whether you believe that that needs to be reviewed.

Mr. BRANSTOOL. Senator Kohl, I was asked earlier a similar question. And one of the overmounting concerns is the huge Federal deficit and indebtedness that this country has, \$4.2 trillion. The President and the Office of Management and Budget have asked us to do everything we can to reduce our costs of government and the cost to the taxpayer. When you are dealing in the area of food inspection and therefore public safety and public health, I agree with you that the public is the beneficiary. So are those who make their living in producing and processing and marketing. They are part of that, as well.

I would say to you that if there was another way to fund meat inspection and the other services that we are charged to provide, that we would be glad to do that. But in view of the serious concern over trying to hold the line on spending and still trying to provide the services and the inspection that is needed, this is how we are coming to the Congress. That is our request.

I know it is not going to be easy for us to administer, and certainly, it will not be easy for the Senate and the Congress to vote for. But it is part of this quagmire we are in on delivering services and how are we going to pay and who is going to pay.

Senator KOHL. Well, thank you very much, Mr. Branstool, gentlemen. I thank you very much, Mr. Chairman.

Senator BUMPERS. Thank you, Senator Kohl.

Senator Cochran.



## BOLL WEEVIL

Senator COCHRAN. Thank you, Mr. Chairman.

Secretary Branstool, I am interested in knowing the status of the boll weevil eradication program and the funding that is requested in this budget to continue the program until we have eradication complete. The reason I bring this up is I notice that the budget request proposes a \$3.38 million decrease below the fiscal year 1993 level. Why is the program being cut by that substantial amount? Do you know?

Mr. BRANSTOOL. Mr. Chairman, Senator Cochran, that question was asked by the chairman earlier.

Senator COCHRAN. Well, I will withdraw that. If that is on the record already I will read the transcript of the record. Do not worry about it.

Mr. BRANSTOOL. OK, Dr. King would be glad to respond.

## ANIMAL DAMAGE CONTROL

Senator COCHRAN. No; that is all right, if you have been asked that question and answered it. I may ask some additional questions for the record to get more specific information about the expansion of the program to other affected areas and related information on the subject.

You have worked for several years with other agencies to try to do something about the problem of the depredation of fish-eating birds that have caused damage and losses in our catfish producing areas of the Mississippi Delta. I wonder what the status is of your efforts to deal with that problem, whether you continue to work on it, and the level of support the budget provides for these important activities.

Mr. BRANSTOOL. Senator Cochran, if you would allow me to defer to Dr. Lonnie King from the Animal and Plant Health Inspection Service.

Dr. KING. Senator, the animal damage control program is doing quite well. We find we have more services to render than we do resources. It seems like depredation is increasing. Not only are we experiencing an increase now in numbers of coyotes and demand for services from people in the Western States, but we are also finding that we have problems with white-tailed deer in the East, blackbirds, gulls at Kennedy Airport, et cetera.

The depredation of catfish in particular is getting to be a serious problem, and our animal damage control program continues to work with producers to try scaring tactics and other ways of thwarting off the cormorants.

Under the proposed budget, our funding would be the same in fiscal year 1994 as we have this year, and it is a matter of trying to balance those services desired with the resources at hand.

## FIRE ANT ERADICATION

Senator COCHRAN. Another substantial decrease in funding, I notice, is a zeroing out of support for the imported fire ant eradication program. I know there has been a difficulty in developing an acceptable control or eradication method that is environmentally



safe. What efforts are being made to develop new and effective fire ant control methods and treatments?

Dr. KING. Yes, sir; we are proposing to eliminate that line item because there really is not an EPA product that has been cleared for pastureland and for farmland since Mirex went off the market. Consequently, we are left with no tools for eradication, so our efforts have been directed toward surveillance and also trying to make sure that the fire ant is not introduced into new States through transportation of infested nursery stock.

Our methods development laboratory continues to test new products to see if they are efficacious for use on fire ants and also to see if they can be cleared for general use. The Agricultural Research Service and others are also working in that area, but right now I see nothing on the horizon, unfortunately, that could be considered a breakthrough.

Senator COCHRAN. I have some additional questions dealing with other specific areas which I will submit and ask you to respond to them for the record. In connection with the Agricultural Marketing Service, I understand some questions have been raised about the pesticide data program for detecting residues in fruits and vegetables that was implemented in fiscal year 1991. I have a list of questions that I would like to submit, Mr. Branstool, to you or Dr. Clayton for your response.

We were doing some testing down at Gulfport Laboratory on pesticide residues in baby foods and other foods, trying to see if we could develop some testing down there. What is the status of that research program, if you know? Is that something that is under contract with you from EPA or some other agency? Maybe APHIS is doing that.

Dr. KING. Yes, Senator Cochran; it is an APHIS laboratory. That particular program in Gulfport now has been stabilized. We have two contracts with Agricultural Marketing Service. One is in their data pesticide program and the other pertains to implementation of the National Laboratory Accreditation Program. We also have a contract with the ASCS to look at pesticides in tobacco. Our work that we have done with the FDA no longer continues, but the two contracts we have with the AMS, the ASCS contract, and the support in the APHIS programs makes that a very stable program right now. It is staffed with good people, and we have good equipment to perform those analyses.

Senator COCHRAN. And there is funding in this budget to continue the work down there?

Dr. KING. Yes, sir.

#### AMS USER FEES

Senator COCHRAN. In further connection with the Agricultural Marketing Service, I notice that there is a request for collections from new user fees for standardization activities and a second shift inspection of egg products. I have several questions on that subject which I will just submit to you for the record and you can give me full and complete answers, if you will, for the record.

## FEDERAL-STATE MARKETING IMPROVEMENT

Also, I am interested in your marketing improvement project with the Federation of Southern Cooperatives, which I understand increased producer sales in Mississippi and Georgia by more than \$1 million in its first year. Can you give us a little brief report on that program?

Dr. CLAYTON. Senator, I would be happy to. It will have to be brief because I do not have much detail at my disposal today. Fundamentally, the purpose of that project was to organize direct marketing efforts in inner-city areas. The idea was to link up small farmers who were producing fresh produce with marketing opportunities in inner-city areas. The small farmer benefits from increased marketing opportunity and residents of inner cities benefit from having access to a supply of fresh produce.

Senator COCHRAN. These are mainly produce and fruits and vegetables of that kind?

Dr. CLAYTON. Yes, that is correct.

## HIRING NEW INSPECTORS

Senator COCHRAN. I have a number of questions about the Food Safety and Inspection Service. You will be relieved to know I am not going to try to ask them all today, Mr. Chairman. I know you probably touched on a number of them, but I have a continuing suspicion that we are acting as if we are solving the problems in the Food Safety and Inspection Service by hiring more people to do visual inspections of carcasses when that does not do anything about the problems that we have.

I do not have any problem with trying to make sure that we have the right number of people out there to do the work that the law requires you to do, and I know the law does require this. I am not saying that ought to be ignored, but for instance, it is my understanding that the Department of Agriculture's immediate response to the recent problem out in the State of Washington, for example, with hamburger meat that was contaminated with bacteria, was to hire some new inspectors, and I wonder whether or not that gets to the problem.

I probably made the mistake of reading a Newsweek article the other day which talked about how safe is our food supply. It said that if you buy a fast food hamburger, you might be buying hamburger meat from four different countries in the one patty, and it occurred to me, if we are requiring visual inspection of a carcass, we are not going to have the same success no matter how many people we put looking at carcasses here, if that ground hamburger meat comes from three or four different countries. Is there a better way to deal with this problem than just hiring more people to inspect visually the carcasses of poultry and meat?

Dr. CROSS. Let me, Senator, answer your question coming from a couple of different directions. Half the beef we eat in this country is hamburger, and only a small fraction of that comes from imported product. The overwhelming majority comes from domestic product, so it is just a fraction that comes from imported product.

From the beginning, Secretary Espy never intended to link the hiring of inspectors to fill vacancies that have been vacant for 4 or

5 years with our pathogen reduction strategy. We have said repeatedly that our inspectors cannot see pathogens, but these inspectors are needed to do numerous jobs which have nothing to do, in many cases, with public health protection. In some cases they do.

But we have got a serious vacancy problem in our inspection work force to the point where we are not obeying the law in some cases. That to us is separate from what we are proposing in our pathogen reduction plan.

We want to continue to do our current inspection system as it was designed to do, make it better, at the same time move into the era of microbiology, and that takes us into the end of Track I, into Track II inspection.

Senator COCHRAN. Do you have a specific request in the budget to deal with that?

Dr. CROSS. Yes, sir; we have two key items in our budget. One is, of course, the \$10 million for the 200 inspectors. We are also requesting \$8 million for the pathogen reduction plan, and that is a farm-to-table plan that involves many other agencies in addition to FSIS. APHIS will be leading the preharvest portion.

Senator COCHRAN. Will the new program bring to bear some of the vital technologies that are available to us to try to detect microbial contamination?

Dr. CROSS. Yes, sir; it will. Rapid methods for detecting bacteria are one of our highest priorities, so we can conduct more testing in the plant. We will continue to encourage research to look at what we call intervention systems such as organic acids, irradiation of meat and poultry, and trisodium phosphate, which are things we think can help us reduce pathogenic organisms.

Senator COCHRAN. The other day the chairman mentioned that he might very well schedule a hearing or hearings just on the subject of food safety inspections and try to figure out what is being done and what needs to be done. I certainly support that. I think that is an excellent idea. I promise to show up and try to be helpful if we are able to schedule hearings of that kind.

I am going to defer at this point, Mr. Chairman, to you for any other questions you have. I have a few more, but I do not want to take up all of your time.

#### FIRE ANTS

Senator BUMPERS. Senator Cochran, you are not. I just have one or two questions before we close this hearing.

First of all, the University of Arkansas at Monticello is involved in fire ant control research, and the people in south Arkansas are really badgering me about how the fire ant just continues to progress further and further north.

I was just reading a letter here from a researcher, Professor Lynne C. Thompson, University of Arkansas at Monticello, and I think it would be interesting just to read this. I will put it in the record, but just for the benefit of everybody present, he lists about six things.

[The letter follows:]



UNIVERSITY OF ARKANSAS AT MONTICELLO,  
DEPARTMENT OF FOREST RESOURCES,  
Monticello, AR, April 28, 1993.

Mr. GAYLON FOUNTAIN,  
Senate Small Business Committee,  
428A Russell Building, Washington, DC.

DEAR GAYLON: Thanks for calling yesterday about fire ants. I have included several reports on fire ants as well as the title pages (with abstracts) of some articles to help you assess the breadth of the fire ant problem. Because I have been in the fire ant business less than one year, my literature files are not as robust as they should be. The major areas where fire ants are problems include:

1. *Homes* Mainly problems in yards from stings and mounds, including damage to gardens, ornamentals and turf, and the cost of control using the multitude of available pesticides.

2. *Horticultural* Damage to gardens, ornamentals and turf, and the cost of control. In addition, shipping plants out of quarantine areas requires considerable expense to keep "crops" fire-ant free.

3. *Agricultural* Severe damage to some crops have been documented (corn and sorghum). Losses also include pesticides for ant control during production, and to control ants when shipping produce to markets out of quarantine areas, such as to California. Especially vulnerable are livestock producers because their low profit margin limits investments in pest control.

4. *Medical* Although most people simply get welts from stings, some people are allergic and may die from these reactions (in 1988 the American Academy of Allergy and Immunology estimated that 21,000 people were stung, 413 were treated for life-threatening reactions and 32 died). Most fire ant related medical problems require some kind of treatment, and in severe cases perhaps temporary loss of income may result. Deaths of course have medical and burial costs. The elderly and the very young are most susceptible to fire ants (children under 6 receive almost 25 percent of all reported stings).

5. *Recreational* Ants certainly detract from recreational experiences. Some people completely avoid infested areas. Of course, control of ants is warranted if recreational use is desired.

6. *Electrical* For some reason fire ants love electrical devices. They get into such things as motors, air conditioners, traffic controls, and phone and utility boxes. As you might suspect, control is difficult around electrical contraptions. Poultry producers are especially vulnerable to electrical failures.

7. *Mechanical* Ants tunnel under roads and foundations. It has been suggested that fire ant tunnelling and mound building along highways opens water courses in the roadbeds which start deterioration problems. (Road repair can be very expensive.)

8. *Biodiversity* The primary food of fire ants is anything living and soft. The ant's favorite food is other insects, but they will eat any defenseless animal encountered, including hatching bird and reptile eggs, and the immatures of anything else that cannot get away. Because fire ants are relentless in their search for food, I suspect that fire ants will eventually be implicated in annihilating more biological diversity in the South than pesticide use. This could be the most costly result of the fire ant's assault of the South.

9. *Beneficial* As described under biodiversity, the ant will kill anything edible. This may include pest insects such as cotton bollworms, tomato hornworms, and potato beetles. Unfortunately, the ant will also protect aphids and other honeydew producing insects from natural enemies, so these insects may increase in numbers under ant "care."

As you know, the fire ant problem is very complex. Therefore, the more knowledge we can acquire about the ant's economic, ecological, and social effects, the better off society will be in dealing with this insect. If I can be of further help, please contact me.

Sincerely,

LYNNE C. THOMPSON, *Professor.*

P.S. Homer Collins at the APHIS Fire Ant Lab in Gulfport, MS, has been very helpful to me in my fire ant project and has supported Senator Bumpers' research initiatives in Arkansas.

Senator BUMPERS. Fire ants: homes, mainly in yards, from stings and mounds, including damage to gardens, ornamentals and turf, and the cost of control using a multitude of available pesticides.



Horticultural, damage to gardens, ornamentals and turf, and the cost of control. In addition, shipping plants out of quarantine areas requires considerable expense to keep crops fire ant free.

Agricultural, severe damage to some crops have been documented—corn and sorghum. Losses also include pesticides for ant control during production and to control ants when shipping produce to markets out of quarantine areas such as in California. Especially vulnerable are livestock producers, because their low profit margin limits investments in pest control.

Here is a good one—medical. Although most people simply get welts from stings—Senator Cochran, I was running for reelection last fall. I was down in South Arkansas and I stepped on a fire ant mound. I do not recommend that to anybody.

Although most people simply get welts from stings, some people are allergic and may die from these reactions. (In 1988, the American Academy of Allergy and Immunology estimated that 21,000 were stung, 413 were treated for life-threatening reactions, and 32 died.)

Most fire ant-related medical problems require some kind of treatment, and in severe cases perhaps temporary loss of income may result. Deaths, of course, have medical burial costs.

Recreational, it goes without saying that ants certainly detract from recreational experiences.

Listen to this. For some reason fire ants love electrical devices. Did you know that, Dr. Cross?

Dr. CROSS. No.

Senator COCHRAN. They get a charge out of it.

Senator BUMPERS. Senator Cochran says they get a charge out of it. [Laughter.]

They get into such things as motors, air conditioners, traffic controllers, and phone and utility boxes. As you might suspect, control is difficult around electrical contraptions. Poultry producers are especially vulnerable to electrical failures.

Ants tunnel under roads and foundations. It has been suggested that fire ant tunneling and mound-building along highways, open watercourses, and the road bed would start deterioration problems.

The primary food of fire ants is anything living and soft. The ants' favorite food is other insects—maybe we can teach them to eat boll weevils—but they will eat any defenseless animal encountered, including hatching bird and reptile eggs and the immature of anything else that cannot get away. Because they are relentless in their search for food, I suspect that fire ants will eventually be implicated in annihilating more biological diversity in the South than pesticide use.

Well, how much money are you asking for for fire ant control? Nothing, is there? Why is that, Dr. King?

Dr. KING. I agree with where you are coming from. We have not had a good pesticide to use. We are just very limited in what we can do. We can go ahead and trace the expansion of the fire ant.

One thing we have done is obtain permission to use an insecticide called Telstar that we use under quarantine circumstances to prevent the spread of fire ants in nursery stock, so that has been one helpful proponent, but without the ability to really stop the fire ant, we are very limited in what we can do.

Senator BUMPERS. There is just no pesticide that you can use that EPA will approve that has any effect on this ant.

Dr. KING. Not in a large pastureland and farmland setting. People use things in their backyards, but nothing has been approved for that kind of agricultural setting.

Senator BUMPERS. Well, why are we not experimenting with something like you do with the Medfly, developing a sterile ant?

Dr. KING. Good question. I do not know the answer to that.

Senator BUMPERS. I am telling you something, the people in Mississippi and Arkansas and all across the South are getting really alarmed about the damage this thing is doing. It is incredible how thick they are in my State.

You know, we are not in the habit of imposing money on the Department of Agriculture or your sector, but I am telling you, you know, the University of Arkansas at Monticello, what do they get, \$200,000 for this research project?

Dr. KING. Right.

Senator BUMPERS. It is just peanuts. We are talking about a problem that is probably costing \$½ billion to \$1 billion a year in damage right now. We just cannot keep ignoring that. You need to go back to the drawing board, I think, Dr. King, and start thinking about other methods, other than insecticides.

#### INSPECTION OF FOREIGN MEAT AND POULTRY

One other question, does Food and Drug Administration inspect imported meat? Do you?

Dr. CROSS. Yes; we inspect all imported meat and poultry products.

Senator BUMPERS. Do you inspect all meat?

Dr. CROSS. We inspect samples. Any country that imports into this country, and there are 33 countries that do, has to have an inspection system at least equivalent to ours. We make random checks of plants within those countries to make sure that their systems are equivalent, and we also do random checks of products entering into this country. So yes, we have a fairly intensive inspection system.

Senator BUMPERS. We do not subject them to anything like the poultry inspection standards that we have though, do we?

Dr. CROSS. Oh, yes.

Senator BUMPERS. Do we?

Dr. CROSS. Yes.

Senator BUMPERS. Do you actually inspect plants in Venezuela, for example?

Dr. CROSS. No; we review the country's inspection program, and then we do a random sample of the plants to make sure that their inspection program is equivalent to our domestic program. In other words, we do not have inspectors in plants in other countries, but those other countries have to have the same type system that we have, an equivalent system, or they cannot export to this country.

Senator BUMPERS. That is true of canned food too, canned meats.

Dr. CROSS. Yes; all meat and poultry.

Senator BUMPERS. Does the Food and Drug Administration inspect fruits and vegetables?

Dr. CROSS. They have an inspection program, yes, for imported foods. I cannot give you much detail on it, but yes, they do have one.

Senator BUMPERS. Did not the Food and Drug Administration discover those grapes from Chile recently?

Dr. CROSS. Yes; I believe they did.

Senator BUMPERS. I have one other question on the Organic Fruit Production Act which I will submit for the record.

Senator Cochran, did you have some additional questions?

#### USER FEES

Senator COCHRAN. I have several more on food safety inspection, but I will just submit them, Mr. Chairman. One deals, of course, with this \$104 million request in collections from new user fees on meat and poultry inspection services which I think goes way too far, and raises questions in my mind as to whether we have the authority to do that in this committee without legislative language.

The budget suggests that we can just put some language in our appropriations bill and take care of everything. I am not sure with something as far-reaching as this authority that we ought to undertake to do that. You can put me down as leaning against that proposal.

Senator BUMPERS. I told them I was hoping the authorizing committee had to deal with that so we would not have to.

Senator COCHRAN. Well, that is where it probably should be.

Senator BUMPERS. It probably ought to be, but we have the responsibility.

Senator COCHRAN. Well, we do have to appropriate, but if we get into the business of trying to change the law in meat and poultry inspection and how it is paid for, that is a legislative responsibility, and I will urge that we defer to the Agriculture Committee on that. They may want to do something in reconciliation on it, I do not know.

Anyway, I do have some other questions, but I will be happy to submit them, and thank you very much for being here today and cooperating with our committee.

Senator BUMPERS. Gentlemen, thank you.

#### FIRE ANTS

Mr. BRANSTOOL. Dr. King has another thought on the fire ants.

Dr. KING. Just very quickly, ARS has spent \$2.1 million in research to look at pheromones, ecological settings, and biocontrol mechanisms to control fire ants, and we are working with them.

The other thing is, we have spent a lot of effort overseas looking for natural predators of fire ants, and continue to conduct that search. We have an established data base in the United States that is supporting that. I just wanted to bring that to your attention.

#### SUBMITTED QUESTIONS

Senator BUMPERS. Thank you, Dr. King. Additional questions will be submitted for written answers and we ask that you respond to them within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]



## AGRICULTURAL MARKETING SERVICE

## QUESTIONS SUBMITTED BY SENATOR BUMPERS

## ORGANIC FOOD PRODUCTION ACT

Question. I note you have not proposed an amount in your budget request to carry out the activities of the Organic Food Production Act. Why have you not requested a specific amount?

Answer. AMS has not requested a specific amount to carry out the activities of the Organic Food Production Act because of spending constraints. Many programs that have merit cannot be funded. We did not receive funding to support the program, and have to fund our activities based on relative priority. AMS has provided some support for the activities of the National Organic Standards Board from current resources. Funding for the costs incurred by the Board is provided from the USDA Federal Advisory Committee account.

Question. What amount did you provide for these activities in 1992 and 1993? What do you expect to provide in 1994?

Answer. In fiscal year 1992 AMS provided approximately \$135,000 which funded salaries and benefits for nearly three staff years, and associated supplies. In fiscal year 1993 we provided \$195,000 and about four staff years. We do not have funding available for organic standards activities in fiscal year 1994.

The Department provides the National Organic Standards Board with funding under the Federal Advisory Committee Act. That allocation was \$120,000 in fiscal year 1992 and \$45,646 in fiscal year 1993. Funding for the Board in 1994 will depend on the amount appropriated to the Federal Advisory Committee account.

Question. What activities currently take place in this program?

Answer. The National Organic Standards Board has held four full Board meetings and 11 subcommittee meetings to develop position papers and draft recommendations for various parts of the program. The Board is soliciting public input on all aspects of the recommendations as they are being developed. The Board is also working to develop the National List of approved and prohibited materials for use in organic production. The Department has also been working to get the United States on an approved country list for the importation of organic products into the Eastern European Community, and working with the Codex Alimentarius Commission to develop guidelines for the Production, Processing, Labelling and Marketing of Organically Produced Foods.

Question. In the conference report accompanying the fiscal 1993 agriculture appropriations bill, the conferees stated their belief that all costs related to the Organic Foods Production Act, including Federal administrative costs, should be recovered from producers participating in the program. Have you taken any action in this regard?

Answer. No, we have not begun charging fees because we are still developing the regulations required for implementation. We also need to develop a base of information on the organic community so that we can assess the effects of proposed regulations and to establish a fee structure.

Question. Are you talking to the producers about this proposal? If so, what is their reaction?

Answer. There is much concern about the impact of user fees on some of the certifying organizations, both private and public. A director of a state department of agriculture has expressed concern that an assessment at the estimated \$2,000 would be too costly to maintain their state program that certifies 80 organic producers. Historically, much of the organic certification work has been conducted by volunteer peer panels, and there is considerable concern that user fees will cause them to label their production as something other than organic, or cause them to go out of business. There have been requests to have appropriations cover the first round of accreditation, with user fees covering later rounds, and also, to have administrative costs such as support for the National Organic Standards Board, ongoing reviews of materials, and negotiations with foreign countries funded by appropriations.

#### PESTICIDE DATA PROGRAM

Question. AMS operates the pesticide data program in cooperation with nine states. The States collect random samples on a range of fresh fruit and vegetables, and test them for pesticide residues to discover the actual exposure to consumers. What is your budget request for this program for 1994?

Answer. The fiscal year 1994 proposed budget for the residue monitoring portion of the Pesticide Data Program is \$11.618 million.

Question. What amount of funding have you used for this program in 1992 and 1993?

Answer. The amount appropriated for fiscal years 1992 and 1993 were \$11.527 million and \$11.563 million respectively.

Question. What significance can you draw from this work? What does the information show?

Answer. One of the objectives in implementing the Pesticide Data program (PDP) is to increase residue detection sensitivity. Analyses of samples containing specific pesticides of interest previously reported as non-detected now more closely reflect actual residues present. At least two years of data representing different agricultural cycles is needed to acquire sufficient data for a complete assessment.

The semiannual report for January through June 1992 is in departmental clearance and will be available shortly. The pesticide data program's state-of-the-art technology has detected residues in approximately 58 percent of the 2,859

samples from the 10 commodities tested from January through June 1992. For five of the commodities tested, pesticide residues were detected in 75 to 82 percent of the samples. In total, residues were detected in 2,969 samples for 42 different pesticides. However, quantitative findings in most cases were substantially below established tolerances. Because we now have the capability of detecting residues at very low concentrations, more than one residue was found in many samples. In the January through June 1992 data, one sample had eight different pesticide residues. Some of these residues have the same or similar pharmacological effect and will provide invaluable information for the Environmental Protection Agency in their risk assessment process.

Violative residue detections are reported to the Food and Drug Administration. Sampling is based on product consumption; samples are collected close to the consumer and without bias as to origin or variety. These samples represent actual availability of produce in the marketplace from different sources. The data collected to date present one of the most scientifically defensible data bases ever assembled on pesticide residue data for fresh produce.

Question. Are you continuing to provide information to the EPA?

Answer. Yes, the EPA receives information from the Pesticide Data program. In three specific areas, complete data profiles of residue results were forwarded to the EPA. These were for benomyl, chlorothalonil, and captan.

Question. What have they done with the information?

Answer. A letter from the EPA to AMS dated April 22, 1993 explains the EPA's use of the data for dietary risk assessments and acknowledges their use of data forwarded for pesticide evaluation issues.

(A copy of the letter follows.)

#### LETTER FROM DOUGLAS D. CAMPT, DIRECTOR, OFFICE OF PESTICIDE PROGRAMS

Dr. Craig Reed  
Science Division Director  
Agricultural Marketing Service  
U.S. Department of Agriculture  
P.O. Box 96456  
Washington, D.C. 20090-6456

APR 22 1993

Dear Dr. Reed:

I am writing to express my continuing support for the Pesticide Data Program (PDP). The food monitoring data generated by PDP are extremely useful to the Office of Pesticides Program at EPA. By monitoring foods collected "closer" to the consumer and emulating consumer practices during the sample preparation process (e.g., peeling of bananas and oranges), PDP provides data that enable us to more realistically estimate actual exposure to pesticide residues. These data differ from those from the majority of other government monitoring programs that are primarily designed for interstate commerce tolerance enforcement purposes and


registrant generated field trials which may yield overestimates of residues in food at the consumer level.

An essential part of our mission at EPA is to ensure food safety in the area of pesticide use and to present our risk findings in a way that will engender public confidence in that safety. Thus, we must be able to prepare dietary risk assessments that are realistic and reliable. We are able to present risk estimates using PDP data to the public with confidence, since the program has been objectively and statistically designed, samples are collected and analyzed in a consistent fashion based on EPA's Good Laboratory Practice standards, and analytical methods used for sample analysis are selected to provide good sensitivity to any residues present. PDP's accomplishments are particularly impressive in view of the fact that they have been achieved largely through Cooperative Agreements with existing State sampling operations and laboratory facilities, thus keeping costs to a minimum.

The data generated by PDP in the coming years will play a key role in the dietary risk assessments that we must complete for high priority pesticide program areas, such as FIFRA 88's reregistration mandates and any Special Reviews that involve a dietary risk concern. We appreciate the responsiveness and cooperation you have shown to date in our requests to include specific chemical/food combinations in your current monitoring programs. You have provided us with data and information on benomyl and captan which we are utilizing in our dietary exposure assessment. In addition, we have been pleased with the rapid turnaround you and your staff have shown in responding to specific requests for up to date monitoring information. In a recent example, a request for monitoring data on chlorothalonil was responded to within a matter of hours. We often have a very limited time period in which to make decisions on risks associated with pesticide use, and your rapid response can be key in assuring that a good decision is made.

In closing, let me thank you again for your quality and cooperation. By working together, we can better ensure the safety of our food supply.

Sincerely yours,

  
Douglas D. Campt, Director  
Office of Pesticide Programs

Question. Have you reported to FDA any samples collected that violate the current tolerance level? If so, what were they?

Answer. We submit violations to FDA when verification is received. The state that finds the violation notifies the local FDA office, and AMS formally informs the FDA Center for Food Safety and Applied Nutrition. In 1992, from the approximately 5,600 samples tested, there were 55 violations in 52 samples. In 1993, from the estimated 800 samples reported to date, there were 20 violations in 17 samples reported to the FDA. Some samples contained two violations.

(A list of violations follows.)



## PRESUMPTIVE TOLERANCE VIOLATIONS

1993

ITEM NO.	DATE PULLED	STATE	PESTICIDE	COMMODITY	TOLERANCE	CONCENTRATION DETECTED
1	93-01-26 (1)	New York	Thiabendazole	Green Beans	No Tolerance	0.13 ppm
2	93-01-27 (1)	California	Thiabendazole	Green Beans	No Tolerance	0.20 ppm
3-1	93-01-27	California	Chlorpyrifos	Celery	No Tolerance	BQL (< 10 ppb)
3-2	93-01-27	California	Dacthal	Celery	No Tolerance	BQL (< 10 ppb)
4-1	93-01-27	California	Chlorpyrifos	Celery	No Tolerance	BQL (< 10 ppb)
4-2	93-01-27	California	Dacthal	Celery	No Tolerance	BQL (< 10 ppb)
5	93-01-27 (1)	California	Thiabendazole	Green Beans	No Tolerance	0.12 ppm
6	93-01-27 (1)	California	Thiabendazole	Green Beans	No Tolerance	0.18 ppm
7	93-01-27 (1)	California	Thiabendazole	Green Beans	No Tolerance	0.21 ppm
8	93-01-27 (1)	California	Thiabendazole	Green Beans	No Tolerance	0.15 ppm
9	93-01-28	Florida	Methiocarb	Apples	No Tolerance	0.35 ppm
10	93-02-01	Ohio	Chlorpropham	Apples	No Tolerance	BQL (< 40 ppb)

ITEM NO.	DATE PULLED	STATE	PESTICIDE	COMMODITY	TOLERANCE	CONCENTRATION DETECTED
11	93-02-10 (1)	Washington	Thiabendazole	Green Beans	No Tolerance	BQL (< 0.25 ppm)
12	93-02-10	New York	Oxamyl	Green Beans	No Tolerance	62 ppb
13	92-02-10	New York	Oxamyl	Green Beans	No Tolerance	57 ppb
14-1	93-02-11	New York	Permethrin	Green Beans	No Tolerance	BQL (< 32 ppb)
14-2	93-02-11	New York	Methamidophos	Green Beans	No Tolerance	BQL (< 8 ppb)
15	93-02-17 (1)	New York	Methamidophos	Grapes	No Tolerance	BQL (< 8 ppb)
16	93-03-03	Washington	Dacthal	Celery	No Tolerance	BQL (< 20 ppb)
17	93-03-16	New York	Chlorpyrifos	Carrots	No Tolerance	BQL (< 10 ppb)

All samples marked by -1 and -2 are double violations

(1) This is an imported sample

PRESUMPTIVE TOLERANCE VIOLATIONS  
1992

ITEM NO.	DATE PULLED	STATE	PESTICIDE	COMMODITY	TOLERANCE	CONCENTRATION DETECTED
1	92-01-15	Florida	Chlorothalonil	Lettuce	No Tolerance	0.23 ppm
2	92-02-10 (5) (1)	New York	Thiabendazole	Bananas	0.4 ppm	0.56 ppm
3	92-02-11	Florida	Acephate Methamidophos	Snap Beans	3 ppm Combined Tolerance	3.8 ppm
4	92-02-11	Florida	Methamidophos	Green Beans	No Tolerance	0.46 ppm
5	92-03-02	New York	Vinclozolin	Apples	No Tolerance	30 ppb
6	92-03-02	New York	Chlorpropham	Apples	No Tolerance	28 ppb
7	92-03-03	Texas	Dacthal (DCPA)	Celery	No Tolerance	41 ppb
8	92-03-03	Texas	Dacthal (DCPA)	Celery	No Tolerance	15 ppb
9	92-03-04 (1)	California	Permethrin	Green Beans	No Tolerance	0.85 ppm
10	92-03-04 (1)	California	Methamidophos	Green Beans	No Tolerance	0.11 ppm
11	92-03-05 (1)	New York	Parathion	Grapes	1 ppm	2.7 ppm
12	92-04-09 (1)	Michigan	Chlorpyrifos	Grapes	0.5 ppm	0.77 ppm
13	92-04-27	New York	Chlorpyrifos	Lettuce	No Tolerance	10 ppb
14	92-04-27 (1)	Washington	Dimethoate	Grapes	1 ppm	1.5 ppm
15	92-05-04	Texas	Iprodione	Celery	No Tolerance	49 ppb

ITEM NO.	DATE PULLED	STATE	PESTICIDE	COMMODITY	TOLERANCE	CONCENTRATION DETECTED
16	92-05-12	Florida	Chlorothalonil	Apple	No Tolerance	Unable to quantify, but Chlorothalonil is present
17	92-05-12	New York	Ipmidione	Celery	No Tolerance	0.29 ppm
18	92-05-13	Michigan	Dimethoate	Peaches	No Tolerance	BQL ( <19 ppb)
19	92-06-03	Texas	Dacthal (DCPA)	Celery	No Tolerance	6 ppb
20	92-07-02	Texas	Pentachloronitrobenzene	Celery	No Tolerance	14 ppb
21	92-07-02	Texas	Chlorpyrifos	Celery	No Tolerance	2 ppb
22	92-07-10	Florida	Dacthal (DCPA)	Celery	No Tolerance	9 ppb
23	92-07-16 (1)	California	Imazalil	Banana	0.2 ppm	0.24 ppm
24	92-07-20	Washington	Dacthal (DCPA)	Celery	No Tolerance	30 ppb
25	92-07-20	Washington	Dacthal (DCPA)	Celery	No Tolerance	21 ppb
26	92-08-04 (1)	New York (found as APTS)	Thiabendazole	Bananas	0.4 ppm	1.9 ppm (first analysis) 1.2/1.3 ppm (re-run)
27-1	92-09-01	New York	Acephate	Peaches	No Tolerance	24 ppb
27-2	92-09-01	New York	Methamidophos	Peaches	No Tolerance	5 ppb
28-1	92-09-01	New York	Acephate	Peaches	No Tolerance	11 ppb
28-2	92-09-01	New York	Methamidophos	Peaches	No Tolerance	4 ppb
29	92-09-08	Michigan	Permethrin	Green Beans	No Tolerance	BQL ( <25 ppb as) BQL ( <20 ppb as)
30	92-09-09	Texas	Chlorpyrifos	Lettuce	No Tolerance	37 ppb



ITEM NO.	DATE PULLED	STATE	PESTICIDE	COMMODITY	TOLERANCE	CONCENTRATION DETECTED
31	92-09-16 (1)	Florida	Thiabendazole	Bananas	0.4 ppm	0.53 ppm
32	92-09-24	Michigan	Thiabendazole	Peaches	No Tolerance	95 ppb
33	92-10-12	Washington	Dacthal (DCPA)	Broccoli	No Tolerance	BQL ( <3 ppb)
34	92-10-12	Washington	Dacthal (DCPA)	Broccoli	No Tolerance	BQL ( <3 ppb)
35	92-10-27	Washington	Dacthal (DCPA)	Celery	No Tolerance	7 ppb
36	92-10-27	Washington	Iprodione (3)	Celery	No Tolerance	BQL ( <80 ppb)
37	92-10-28	Michigan	Permethrin	Green Beans	No Tolerance	34 ppb
38	92-11-12	New York	Iprodione	Celery	No Tolerance	BQL ( <50 ppb)
39	92-11-17	Washington	Pentachloronitrobenzene	Celery	No Tolerance	BQL ( <10 ppb)
40-1	92-11-17	Washington	Dacthal (DCPA)	Celery	No Tolerance	5 ppb
40-2	92-11-17	Washington	Pentachloronitrobenzene	Celery	No Tolerance	BQL ( <10 ppb)
41	92-11-20	Florida	Chlorpyrifos	Celery	No Tolerance	BQL ( <10 ppb)
42	92-11-30	Michigan	Methamidophos	Green Beans	No Tolerance	61 ppb
43	92-11-30	Texas	Dimethoate	Carrots	No Tolerance	BQL ( <20 ppb)
44	92-12-09 (1)	Texas	Thiabendazole	Bananas	0.40 ppm	estimated value (2)
45	92-12-09 (1)	Texas	Thiabendazole	Bananas	0.40 ppm	estimated value (2)

ITEM NO.	DATE PULLED	STATE	PESTICIDE	COMMODITY	TOLERANCE	CONCENTRATION DETECTED
46	92-12-15	Texas	Methamidophos	Green Beans	No Tolerance	BQL ( < 12 ppb)
47	92-12-16	Texas	Chlorpyrifos	Lettuce	No Tolerance	91 ppb
48	92-12-16	Texas	Endosulfans	Lettuce	2.0 ppm	4.22 ppm
49	92-12-28	Michigan	Thiabendazole	Bananas	0.40 ppm	0.70 ppm
50	92-12-28	California	Dacthal	Celery	No Tolerance	BQL ( < 10 ppb)
51	92-12-29	California	Dacthal	Celery	No Tolerance	BQL ( < 10 ppb)
52	92-12-29	California	Dacthal	Celery	No Tolerance	BQL ( < 10 ppb)

All samples marked by -1 and -2 are double violations

(1) This sample was grown in Mexico

(2) The Texas Department of Agriculture - Brenham Labs declared a Level of Quantitation for Thiabendazole of 0.84 M. Therefore, this BQL will be included in the PDP database as 1/2 the LOQ or 0.42 M which exceeds the tolerance for Thiabendazole in Bananas of 0.40 M.

(3) The high LOQ is due to a dilution.

(4) The grower and packer is unknown, so this cannot fall under the Section 18 Emergency Exemption for counties in California

LOQ= Limit of quantitation reported by a participating laboratory

Question. Do you plan to expand the program to other states and commodities in 1994?

Answer. The proposed funding for fiscal year 1994 does not allow us to increase the number of states participating in the Pesticide Data program. However, at the EPA's request, the program is planning to add two additional commodities in calendar year 1994, for a total of 14 commodities. In addition, the EPA has requested that the program consider sampling processed products, such as juices and frozen vegetables. To do so, modifications in the sampling process may be required. We will need to study the requirements before implementation.

Question. When do you expect completion of this program?

Answer. The Pesticide Data program was designed to provide the EPA with data for risk assessment of pesticide tolerances under the Federal, Insecticide, Fungicide, and Rodenticide Act (FIFRA). AMS will reevaluate this program during fiscal year 1994 to determine whether it should continue in the future.

#### INTERNATIONAL MARKET DEVELOPMENT

Question. Mr. Clayton, I note in your testimony that AMS supports the USDA's emerging democracies initiatives in the Eastern European and the former Soviet republics. What are some of these activities and in what countries?

Answer. The Agricultural Marketing Service provides technical assistance involving wholesale market development, market news, commodity standards, grading, and port development in Bulgaria, Czech Republic, Kazakhstan, Poland, Russia, and Ukraine. The projects assist in economic development through better agricultural marketing, and should ultimately enhance trade for U.S. food producers, processors, exporters, and investors. A listing of the projects and countries follows.

Bulgaria: (1) Grade Standards and Quality Control--Provides assistance to fruit and vegetable research institutes for the development of grade standards for fresh and processed fruits and vegetables; (2) Fruit and Vegetable Market News--A market news project development team traveled to Bulgaria in May 1993 to assess the feasibility of a market news program.

Czech Republic: Agricultural Wholesale Marketing Project for the Czech Republic--A wholesale center demonstration, evaluation, and conceptual design study will help provide a technical focus for developing modern marketing facilities.

Poland: (1) Agricultural Wholesale Marketing Project for Poland--The project is evaluating shipments to Poland of U.S. agricultural products, using the latest postharvest and transport technology; (2) Market Information System and Commodity Standards--Assistance is being provided to the Polish Ministry of Agriculture for the development of a nationwide market information system.

Russia: (1) Market Information System--Fruit and vegetable market news specialists spent eight weeks in Russia, and Russian specialists came to the United States for training as part of a project to implement a market news service. (2) Wholesale Market Follow-up, Moscow--U.S. Government and private sector representatives will consult on storage, handling, and procurement changes, and will help to develop workplans for implementation of recommended strategies; (3) Wholesale Market Development II, Moscow Oblast, Belgorod Oblast--This project represents a continuation of efforts to introduce employees and managers to modern methods of food distribution which can be adapted to local conditions; (4) Market Information Project, Alma Ata, Kazakhstan--This project would incorporate elements of an earlier successful market information project in Moscow, and provide technical assistance to local food producers, distributors, and processors in Kazakhstan in order to further their understanding and adoption of free-market mechanisms; (5) Marketing Internships, Moscow--This project will support 3- to 4-month internships at U.S. wholesale market operations for key individuals in the development of Russian agricultural wholesale markets; (6) Marketing Short Course, Kiev--This short course will address problems arising from the absence of alternative food distribution channels in Ukraine, and insufficient knowledge in the local agricultural community regarding ways to create new links in the food distribution chain; (7) Handbooks on Marketing, Storage, and Handling--The USDA has three references to be published in English and Russian for use in seminars and other activities to help solve problems in the areas of marketing, storage, and handling; (8) St. Petersburg Port Study--The project will prepare a detailed technical appraisal of bulk and container cargo handling problems at the port of St. Petersburg.

Question. What is the funding level for these efforts?

Answer. AMS has signed reimbursable agreements with the Foreign Agricultural Service totaling \$1,893,000 through fiscal year 1993.

## TRANSPORTATION ISSUES

Question. What transportation issues are currently being studied by AMS?

Answer. The Agricultural Marketing Service is currently studying a number of transportation issues. A representative list includes:

Implementation of the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) in rural areas. ISTEA provides the states with flexibility to design and plan transportation systems responsive to their needs, but requires the states to involve the public in the transportation planning process. During fiscal year 1993, AMS co-sponsored eight workshops for rural and small urban areas to inform them of the opportunities offered by ISTEA to shape rural transportation systems, and to facilitate their participation in the statewide transportation planning process required under ISTEA. The workshops drew 1,000 participants representing state and local government, regional and trade associations, providers and users of transportation.



Impact of ISTEA on rural areas. A research project is underway to examine the impact of ISTEA on the transportation available to rural areas. Funding allocations will be examined, along with condition data to ascertain whether rural areas receive sufficient funding to maintain a viable transportation infrastructure.

Status of rural bridges. Using data collected by the U.S. Department of Transportation, AMS is examining the status and condition of bridges located in rural areas. The National Bridge Inventory contains data on all bridges over 20 feet in length, providing information on structural condition, functional adequacy, traffic volume, and other information on bridge type and use.

Impact of rail restructuring on agriculture and rural areas. Since deregulation of the rail system, railroads have been abandoning track to streamline the overall system. AMS is conducting a comprehensive overview of the impact of this restructuring on rural areas, including its impact on agriculture, the economies of rural communities, and the rural road system that now accommodates increased truck traffic. The report also will review the role of short line railroads in serving agriculture.

Other Issues. AMS is studying many different railroad, truck, waterway, and maritime issues as they affect agriculture and rural America. Some of these issues include: (1) adequacy of railcar supply for grain shipment; (2) railroad capacity of Pacific Northwest ports to accommodate increased grain exports; (3) institutional differences between the U.S. and Canada in grain marketing and transportation; (4) logistical considerations in moving U.S. grain to Mexico; (5) economic effects of increased waterway user charges; (6) economic effects of changes in the operation and maintenance of the Missouri River system; (7) analysis of ocean liner shipping freight rates and flows for agricultural exports; and, (8) analysis of freight rates on bulk agricultural exports.

Question. How is AMS assisting agricultural shippers and other rural residents in analyzing and dealing with railroad line abandonment requests?

Answer. AMS assists agricultural shippers and other rural residents on railroad line abandonments by: (1) providing information and technical assistance to rural shippers faced with a loss of rail service; (2) monitoring changes in the rural rail infrastructure and providing information on these changes to policy makers at the national, state, and local levels; and, (3) by participation in selected rail abandonment proceedings before the Interstate Commerce Commission in the form of oral or written testimony in support of agricultural shippers, local residents, and rural communities facing the loss of rail service.

## WHOLESALE MARKET DEVELOPMENT

Question. What is the status of the South Carolina, Maine, and Chicago wholesale market development centers?

Answer. We have completed the first phase of activity for the Chicago market. The first phase, involving surveys and collection of data, resulted in the development of site plans for the construction of a replacement for the antiquated

South Water Street market. We have provided these plans to the City of Chicago. The City is now working with developers on various financial plans to start construction. Phase II of the project, the study of the Randolph and Fulton Streets market, is now underway. City personnel are interviewing operators on that facility to develop preliminary data needed to define the project. AMS is working with the City of Chicago's Department of Planning to define the third and final phase of the project.

AMS has developed a preliminary design for a multi-purpose agricultural marketing center in Maine. Initial project concepts foresee the development of centralized marketing facilities, probably in the southern part of the state. This center, or agricultural marketing services park, is intended to help Maine become more competitive in national and international markets. The park may include truck transfer/brokerage facilities, repacking facilities, commercial perishable storage, wholesale facilities, a farmers' and auction market, and a food processing building for "start-up" firms. We have also initiated a cooperative study with the University of Maine to assess the economic potential of such a facility and the potential participation by the State's agricultural interests.

In cooperation with the South Carolina Department of Agriculture, AMS is assessing the feasibility of developing revitalized farmers' market facilities in Columbia, South Carolina. We have completed all survey work and developed a generic site plan. Work on this project will continue once a specific site is identified by the cooperator.

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## QUESTIONS SUBMITTED BY SENATOR COCHRAN

### NEW USER FEES

Question. The fiscal year 1994 AMS request includes \$6.2 million in collections from new user fees for standardization activities and second shift inspection of egg products. Are these fees currently authorized?

Answer. The Egg Products Inspection Act authorizes user fees for all overtime and holiday inspection activities. Approval of the appropriations language would authorize user fees for all inspection services other than during an approved primary shift. AMS has authority under the U.S. Cotton Standards Act and the Tobacco Inspection Act to recover standards costs for these two commodities.

Question. How long would it take to establish and start collecting these fees?

Answer. From the time we begin to establish regulations, it will take approximately six months to begin collecting user fees for egg products inspection. We will incorporate user fees for standardization activities into the fees AMS charges for grading services at the beginning of the fiscal year.

Question. How did you calculate that these fees would generate \$6.2 million in collections in fiscal year 1994?

Answer. AMS costs for second shift egg products inspection are approximately \$1.7 million. Fees will be based on recovery of these costs, which are largely for pay and benefits to inspectors and supervisors. AMS' costs for the commodity standards program total \$4.5 million, representing mostly salaries and benefits for development, review, and maintenance of standards.

#### PESTICIDE DATA PROGRAM

Question. A program to detect pesticide residues in fruits and vegetables was implemented in fiscal year 1991. What reports have been made on the progress of the program, and is it fulfilling any needs of EPA, FDA, consumers, and industry?

Answer. A report was issued in March 1992 for the data collected in calendar year 1991. The semiannual report for calendar year 1992 is being cleared and will be issued shortly. A complete 1992 report will be issued in September 1993.

The EPA has stated its need for the data and acknowledged the importance Pesticide Data program data played in assessment of benomyl, chlorothalonil, and captan. The FDA is assessing the violations reported by program in regard to their enforcement activities. A brochure on the data collection program entitled, "The Pesticide Data Program--Designed for Risk Evaluations" and a 4-page November 1992 progress report was widely circulated.

We have worked closely with industry groups, such as the National Food Processors Association and the National Agricultural Chemicals Association, to explain the Pesticide Data program's goals and objectives. The data base has been specifically designed for risk assessment evaluations of pesticide residues in food. Agency personnel have made numerous presentations to groups and at scientific meetings to provide interested parties with a working knowledge of PDP principles. Some of these presentations were made before meetings of the American Chemical Society, American Food and Drug Officials and several state and Federal meetings where consumers and industry were represented.

The Agricultural Marketing Service is working with other USDA agencies--National Agricultural Statistics Service and Economic Research Service--and the participating states to assess occurrences of pesticide residues based on PDP generated data for production and marketing practices of particular crops. These studies will provide recommendations to modify pesticide use in agriculture while sustaining the same level of food production. Furthermore, these activities will help integrate the PDP related activities within USDA.

Question. A GAO audit of the Pesticide Data Program identified some serious problems. Do you know if anything has been done to correct those problems?

Answer. All of the recommendations listed in the GAO report were implemented.

(A copy of the response to GAO follows.)

STATEMENT OF ACTION ON  
GAO FINAL REPORT IMTEC-92-11, DATED JANUARY 31, 1992, ENTITLED  
"FOOD SAFETY: USDA DATA PROGRAM NOT SUPPORTING CRITICAL  
PESTICIDE DECISIONS"

General Comments

The General Accounting Office (GAO) acknowledged in the exit meetings that the audit between November 1990 and January 1992 was conducted when the Pesticide Data Program (PDP) was in its formative stages, and when many of the policy and operational procedures were being finalized. PDP was funded initially in December 1990, and State administrative procedures to approve the cooperative agreements were completed by May 1991, concurrent with the first commodities sampled for residue testing. The U.S. Department of Agriculture (USDA) staff made available to GAO investigators all documents pertaining to the agreed upon procedures; however, the information was not fully represented in GAO's final report. The GAO report does not represent the current status of the program, nor does it acknowledge PDP achievements to date which include: (1) harmonizing State testing capabilities; (2) providing comprehensive, objective residue data; and (3) introducing new analytical technologies to provide increased sensitivity for residue detection needed for risk assessment studies.

GAO's assertions regarding program plans, timeliness, and data information systems are no longer applicable because of the progress made in achieving a comprehensive system to provide residue data to meet risk assessment needs of the Environmental Protection Agency (EPA). In March 1992, the "Calendar Year 1991 Report" was published and distributed.

Specific comments on a draft of the GAO report were made by the Administrator of the Agricultural Marketing Service (AMS) and were presented in the final report. In addition, the Administrator of the National Agricultural Statistics Service (NASS) finds one area, described below, which he believes is misleading concerning the section entitled "New Data Base for Pesticide Usage Survey has been Delayed" on page 9.

The implication from the GAO report is that the delay of a new data base has hampered management of the data and slowed dissemination. This is not true. NASS' existing information management and dissemination system is known to be very efficient. Exact times and dates for release of survey results to data users are established 6 months to a year in advance. Results of pesticide surveys are published within 6 months of data collection.

The purpose of the "new" pesticide data base is to develop a data base system where micro data can be stored and shared without violating individual confidentiality requirements. Micro data are currently being given to the Economic Research Service (ERS) for research purposes.



The USDA Working Group on Water Quality has asked the different agencies and departments to assist NASS and ERS by providing a general description of their micro data needs. We are awaiting information regarding those micro data needs, and intend to direct the NASS/ERS pesticide usage data base committee accordingly.

#### GAO Recommendation

"To help establish a better foundation for the success of USDA's Coordinated Pesticide Data Program, we recommend that, after completing the current data collection effort with the existing six states, seven commodities, and eleven pesticides, the Secretary of Agriculture not proceed with further residue data collection activities until the Administrator of Agricultural Marketing Service:"

"Evaluates, in conjunction with EPA and FDA officials, the results of current data collection efforts;"

#### Departmental Response

AMS serves as the lead agency for the program. PDP coordination is, and has been, a multi-departmental effort with planning, policy, and procedural efforts coordinated between USDA, EPA, and the Food and Drug Administration (FDA). However, this coordination is based on the data needs of the individual agencies. The pesticide data being generated is designed to meet EPA's risk assessment requirements, whereas with FDA our cooperative effort is to minimize replication of resources and harmonize data nomenclature systems. To accomplish this, USDA has signed a Memorandum of Understanding (MOU) with EPA and is clearing the MOU with FDA. The MOU provides for the coordination of the PDP by USDA and EPA. USDA maintains its commitment to evaluate data collection needs with appropriate EPA and FDA officials as frequently as warranted.

From the start, AMS has continuously worked with EPA to develop program plans and prioritize both commodities and pesticides to be included in the program, based on an initial list provided by EPA in July 1990. AMS provides these plans to the participating States and holds periodic meetings with all agencies concerned to discuss planning activities and address outstanding program issues. The present information management system is compatible with EPA's software for data transmittal, and we have established a liaison with EPA's data base contractor. AMS has also coordinated efforts with EPA to establish a "Good Laboratory Practices" guideline to supplement the rigorous quality control and recordkeeping procedures in effect in the participating States' laboratories. Records of individual sample sets will be made available to EPA, if requested.

AMS reports to FDA any violative sample information disclosed in the course of the PDP to supplement FDA's compliance information. USDA adopted FDA's nomenclature system for pesticide data recording and commodity coding systems, and worked with FDA to develop information profiles which would be more responsive to risk assessment needs.

We look forward to receiving EPA's and FDA's comments on the "Calendar Year 1991 Report," and working closely with both of these agencies to continuously improve PDP.

GAO Recommendation

"Reaches agreement with EPA and FDA on how the Pesticide Data Program can most efficiently provide statistically reliable data, meet users' needs, and support interagency pesticide responsibilities:"

Departmental Response

A statistically-valid sampling plan is one of the goals of the program, but it was never a prerequisite for beginning operations to collect useful and meaningful data. To our knowledge, PDP is the only residue testing program for fresh produce that is based on random selection procedures for sampling sites and days, as well as commodity units. As such, the program is providing some of the most comprehensive and objective data ever obtained for pesticide residues in fresh fruits and vegetables. This approach has been acceptable to EPA.

To further strengthen the program, AMS has enlisted the assistance of NASS to evaluate statistically-defensible sampling plans for PDP, to assist us in identifying the costs necessary to implement these plans, and to provide long-term maintenance support for the plans that are implemented. EPA and USDA will determine the extent to which it is feasible to use statistically-based sampling to meet the data needs of EPA, and the acceptability of using non-statistical procedures. Because the current sampling procedures use random selection processes and allocate samples across major sources of sampling variability in the distribution chain for fresh produce, refinements and not a major overhaul of these procedures by NASS are anticipated. At a minimum, PDP will continue to provide pesticide residue data to EPA that is useful and meaningful in its risk assessment process. NASS will begin its evaluation of sampling plans in April 1992, and this effort is expected to carry through to FY 1993. AMS and NASS will also review other pesticide residue sampling programs in place, including the new FDA procedures for sampling tomatoes and pears.

GAO Recommendation

"Documents these agreements with EPA and FDA."

Departmental Response

Early in the program, AMS began taking minutes of meetings which include all procedural arrangements agreed upon by the participants, as well as comments from the participants. The current operating procedures and direction for PDP are multi-departmental. We request EPA's review of our program plans and require their acknowledgement for any changes. We are also responsive to FDA's needs, and established reporting procedures for violative sample information which may impact FDA's enforcement decisions. The MOU with EPA and the pending addition of FDA to the MOU clearly defines these roles and establishes an Executive Level Steering Committee to provide direction for future program activities.

GAO Recommendation

"We also recommend that the Secretary of Agriculture direct the Department's Office of Information Resources Management (OIRM), working with the USDA components involved in the program, to develop and implement an information technology strategy, plan,

and implementation schedule that details how the Department will manage, process, and disseminate all pesticide data being compiled under the Pesticide Data Program."

#### Departmental Response

AMS agrees with the need for a coordinated information strategy. AMS has been working with an outside contractor with expertise in this field to develop a mission analysis, concept definition, and an automated data processing (ADP) plan for the system. The contractor has interviewed appropriate personnel from FDA, EPA and other USDA agencies on PDP. The mission analysis and concept definitions have been completed and the ADP plan is under development. AMS is providing copies of the documentation pertaining to the technology strategy, plan, and implementation schedule to OIRM for review and oversight as they become available.

Concurrent with this effort, a prototype data base system was developed by in-house experts which allows residue data information to be entered and summarized. As designed, the system will accept data on samples, such as origin and product type, and weight. This information is then matched with data reflecting the laboratory results.

Question. How many samples does the Pesticide Data Program collect in a year?

Answer. In calendar year 1991, the program collected 1,963 samples and performed 2,691 analyses. In 1992, the program collected 5,640 samples and performed 14,400 analyses. For 1993, we expect to collect 9,360 samples and perform 37,440 analyses.

Question. How does all this residue data help anyone?

Answer. The data generated by PDP is designed to provide the public with actual pesticide residue data in fresh fruits and vegetables near the point of consumption. The program is also designed to help EPA conduct risk assessment studies needed for the reregistration of pesticides.

Question. Do you think it is a good idea to have USDA producing pesticide residue data, or should it be done elsewhere?

Answer. USDA represents the interests of both the producer and the consumer. We are conducting this program in an unbiased and neutral manner and are working closely with all interested parties. AMS forwards the residue data to EPA as it is reported from participating State and Federal laboratories and subsequently releases the same information to the public.

## FOOD SAFETY AND INSPECTION SERVICE

## QUESTIONS SUBMITTED BY SENATOR BUMPERS

## ACCREDITED LABORATORY PROGRAM

Question. I note in your testimony that you are proposing to collect \$1 million in user fees, as authorized in the 1991 amendments to the 1990 Farm Bill, for the accreditation of private laboratories that perform residue and other tests on meat and poultry. My information is that many meat and poultry plants will simply cease having their labs accredited for these particular official tests, which comprise only a small part of the testing which these labs do, and instead farm them out to a very limited number of commercial labs. Those commercial labs may pay your user fee, but I question whether anything even approaching \$1 million can be raised with so many labs simply dropping out of the accreditation process. The alternative is to inundate FSIS laboratory facilities with these tests. I wonder how FSIS could possibly handle all these tests in a timely fashion. What is your reaction?

Answer. Participation in the FSIS Accredited Laboratory Program is voluntary, and the primary beneficiaries of the program are the Accredited Laboratories. The program was created to meet the meat and poultry industry's need for more rapid analytical results on official test samples. FSIS believes that a significant number of laboratories affiliated with the meat and poultry industry would choose to continue their accreditation under the User Fee Program because of the Accredited Laboratory Program's well-recognized usefulness to the industry of shortened times for test results on official samples. We experienced a net increase of 26 laboratories after the user fee legislation was enacted by the U.S. Congress in late 1991. The user fees are to be established to offset the Agency costs in conducting accreditation efforts. If the number of laboratory accreditations decreases, our total costs will also decrease.

Question. How many private laboratories do you currently inspect for accreditation?

Answer. As of May 1993, there were 241 non-Federal laboratories in the FSIS Accredited Laboratory Program. Several of these laboratories have more than one accreditation.

Question. How many private labs?

Answer. The total population of private laboratories is unknown. Information concerning the



forthcoming implementation of user fees is provided to laboratories expressing interest in FSIS accreditation. We continue to receive and process new applications for accreditation in the Accredited Laboratory Program.

#### IRRADIATION

Question. I understand FSIS issued a rule to permit irradiation on packages of fresh or frozen, uncooked poultry to control *Salmonella* and other bacteria that cause foodborne illness, on September 21, 1992. In your testimony, you mention a request of \$150,000 for the examination of irradiation as a sterilization process of meat products. How did you arrive at your initial decision on irradiation last September?

Answer. On October 24, 1986, the Food Safety and Inspection Service petitioned the Food and Drug Administration to permit the irradiation of poultry to reduce the potential for food-borne hazards. The petition included reference to a large body of research documenting the safety and efficacy of the irradiation process. However, FDA was responsible for reviewing the toxicity, efficacy, and nutritional adequacy studies. FDA amended its food additive regulations to permit poultry irradiation on May 2, 1990. On May 6, 1992, FSIS issued a proposed rule to allow poultry irradiation based on the May 1990 FDA rule. In the May 1992 FSIS proposed rule, FSIS explained that irradiation could reduce the health costs associated with food-borne illness, particularly from *Salmonella*, *Campylobacter*, and *Listeria monocytogenes*. The Centers for Disease Control estimated that approximately 2 million *Salmonella* related illnesses in humans occur annually and the number of *Campylobacter* related cases would be larger. The Economic Research Service then estimated that poultry irradiation could have a benefit/cost ratio greater than one; that is, for every dollar expended on irradiation, there would be more than a dollar of medical and productivity costs avoided. In addition, ERS estimated net public health benefits would range from 35 to 50 million dollars annually. After analyzing the comments on the May 1992 FSIS proposed rule, FSIS issued a final rule on September 21, 1992, allowing poultry to be irradiated.

Question. Did you conduct studies? If so, how does this new study differ?

Answer. No. However, FSIS supports research on irradiation, which is related to specific Agency concerns that would not otherwise be studied or designed. USDA's Agricultural Research Service conducts this research for FSIS. When FSIS petitioned FDA in 1986, FSIS accumulated the available research -- including research conducted by ARS. Past FSIS-supported research has included identification of

irradiation markers, which can be used to establish if meat or poultry has been irradiated, and nutritional degradation of vitamins such as thiamine in pork.

The funding requested is not for a new research study. In meetings with other government agencies and industry trade groups, FSIS has determined that all research needed to support a petition to the FDA to amend their regulations to permit irradiation of red meats is currently funded and underway. The \$150,000 is needed for the administrative costs of coordinating the development of the petition with other government agencies and industry trade groups and to assure that the petition is complete and correct, thereby facilitating its review by FDA and increasing the probability that FDA regulations will be amended as soon as possible.

Question. Have you approved other meat products for irradiation? If not, do you plan to do so in the near future?

Answer. Yes. In January 1986, FSIS amended its food additive regulations to permit irradiation of pork to control *Trichinella spiralis*.

FSIS does intend to pursue rulemaking to permit the irradiation of beef and other red meats if FDA regulations are amended to permit such use of irradiation.

Question. Are there currently any irradiated poultry products on the market?

Answer. No. Currently there are no irradiated poultry on the market.

Question. What about imports?

Answer. No. However, FSIS regulations do permit irradiated poultry to be imported.

Question. What are the labeling requirements?

Answer. All irradiated poultry must bear the international radiation logo along with a statement such as, "Treated with radiation" or "Treated by irradiation." In addition, the product label must bear the handling statement "Keep Refrigerated" or "Keep Frozen," as appropriate.

#### SALMONELLA AND LISTERIA

Question. Dr. Cross, I note in your testimony that you are continuing the monitoring programs for salmonella and listeria. Are we making any progress in these areas?

Answer. FSIS is continuing its monitoring programs for the presence of *Listeria monocytogenes* and *Salmonella* in cooked, ready-to-eat products such as cooked beef, sliced ham and luncheon meats, cooked sausage, beef jerky, cooked poultry, and meat and poultry salads and spreads. These programs have been recognized by CDC researchers, in papers published in 1990, 1991, and 1992, as effective in reducing human illness due to listeriosis and salmonellosis.

Question. In particular for salmonella, is the incidence decreasing, about the same, or increasing?

Answer. The purpose of these monitoring programs has been, and continues to be, to identify plants whose operating practices are not adequately controlling the presence of these pathogens. As such, the programs have not been designed for the purpose of assessing change. However, during calendar year 1991, 6,160 samples were analyzed for *Salmonella* and positive findings were detected in six plants. During calendar year 1992, 4,637 samples yielded positive samples in two plants.

#### USER FEE PROPOSAL

Question. How does this proposal differ from the one submitted last year? The estimated savings of \$104,000,000 is twice the amount projected last year.

Answer. In fiscal year 1993, FSIS proposed to charge user fees of \$1,000,000 for laboratory accreditation and user fees of \$50,954,000 for one-half of the cost of inspection service performed beyond eight hours in a day. In fiscal year 1994, the Agency proposes the same user fees of \$1,000,000 for laboratory accreditation and user fees of \$103,000,000 for the full cost of inspection service performed outside of a single scheduled and approved primary shift. Therefore, the most significant difference between the two proposals is that in the 1993 Budget we proposed a 50/50 industry/Federal sharing of the cost of second shift inspection, and in the 1994 Budget we are proposing that plants receiving the service pay the full cost.

Question. What is your estimate of the actual fee to be charged?

Answer. The fee has not yet been established. We would expect the second shift fee to be in the range of \$29 to \$30 per hour, the same as our current fee.

Question. Why do I keep hearing this proposal is going to hurt smaller companies?

Answer. Establishments that operate beyond approved regularly scheduled shifts currently pay overtime costs for inspection. Establishments with more than one regularly scheduled and approved shift are generally large plants with sizable production. Those establishments do not pay overtime costs for their regularly scheduled shifts beyond eight hours a day, whereas establishments that do not have sufficient production to warrant an additional complete shift must pay overtime. These establishments tend to be smaller plants.

Under the current proposal, all establishments that operate outside a single approved primary shift will be required to pay for the costs of the additional inspection. Rather than hurting smaller companies, this proposal would help put inspection services for large and small plants on a more equal footing by eliminating the free second shift inspection for the larger operations, and giving all plants one shift of free inspection.

#### MICROBIOLOGICAL BASELINE STUDY

Question. In fiscal year 1992, FSIS announced and began a study to collect microbiological data on beef carcasses. I note in your testimony that you are now expanding the baseline study to include cows, poultry and swine. What is the total cost of this survey?

Answer. The Nationwide Beef Microbiological Baseline Data Collection Program for steers and heifers began in October 1992. At the end of the fiscal year, we will be able to provide you with the actual cost of the first year of the survey.

Question. What was the budget for this survey in 1992, 1993, and proposed for 1994?

Answer. No funds were budgeted for the baseline survey in 1992. In fiscal year 1993, we estimate that \$400,000 will be required for the survey. In fiscal year 1994, we are proposing a budget of \$2,500,000 for the expanded baseline studies.

Question. How many plants are currently inspected by FSIS and how many will be part of this survey?

Answer. There are about 6,400 plants inspected by FSIS, of which about 1,500 slaughter animals for human food. Of the plants that slaughter under FSIS inspection, about 970 slaughter steers and/or heifers. Of this number, 94 plants, representing 99 percent of steers/heifers slaughtered in the U.S., are in the baseline beef sampling program. Of the approximately 860 plants that slaughter cows/bulls, it has been proposed that 185 plants, representing 99 percent of



cows/bulls slaughtered, be included in the baseline cow/bull study.

Question. What is the time frame for the expanded survey, and when do you expect to issue a final report?

Answer. Information regarding baseline surveys for other species or market classes of animals is not available at this time because the surveys have not yet been designed. When they have been designed, they will be made available for comment. Once comments have been made and the surveys are finalized, we will be able to provide you with more information concerning the time frame and the final report.

Question. Will interim reports be filed?

Answer. Currently, there are no plans to issue interim reports. However, when the baseline studies are designed, we will be better able to address reporting schedules.

#### STATE INSPECTION PROGRAMS

Question. How many states currently operate inspection programs for meat and/or poultry products?

Answer. Currently, 27 States are conducting cooperative inspection programs.

Question. What is the percent of the federal match for these programs?

Answer. The Federal program provides reimbursements of 50 percent of the total cost of each State program.

Question. Does that include funding for administration?

Answer. Yes, the 50 percent Federal matching funds does include all direct and indirect expenses.

Question. How often is a comprehensive review of state programs conducted?

Answer. Once every three to five years, based on results of the last review. Additional Federal oversight is provided by review and approval of the State Performance Plan, special reviews, and annual reports.

Question. Due to state budget constraints, have you noted any states discontinuing inspection programs?

Answer. In the past ten years, only one state -- Maryland in 1991 -- discontinued its inspection program.

Question. What happens if a state discontinues their program?

Answer. The law requires all plants shipping in interstate commerce to be inspected by Federal employees; plants that do not ship products across State lines must be inspected by either Federal or by State employees under a cooperative inspection program equal to the Federal program. When a State discontinues its inspection program, the plants formerly inspected by the State are mandated by law to come under Federal inspection.

Question. Please list the states with whom you have cooperative programs and the amount of grants going to each state in 1992 and 1993.

[The information follows:]

Grants to States  
(Dollars in thousands)

<u>State</u>	<u>1992</u>	<u>1993</u>
Alabama.....	1,222	1,143
Alaska.....	345	359
Arizona.....	471	494
Delaware.....	301	214
Florida.....	1,930	1,852
Georgia.....	2,307	2,380
Hawaii.....	1,396	1,278
Illinois.....	3,824	3,776
Indiana.....	1,669	1,620
Iowa.....	992	977
Kansas.....	1,183	1,232
Louisiana.....	1,579	1,461
Mississippi.....	947	900
Montana.....	312	318
New Mexico.....	374	396
North Carolina.....	2,580	2,687
Ohio.....	4,224	4,336
Oklahoma.....	1,570	1,568
South Carolina.....	1,013	1,081
South Dakota.....	367	369
Texas.....	4,311	4,692
Utah.....	600	617
Vermont.....	258	267
Virginia.....	1,259	1,255
West Virginia.....	474	563
Wisconsin.....	2,281	2,446
Wyoming.....	192	241
Total.....	37,981	38,522

CBS EVENING NEWS REPORT

Question. On the May 17 CBS Evening News Report on meat safety, Erin Hayes of CBS News talked to Dr. W. S. Horne, Deputy Administrator of FSIS Inspection

Operations, about slaughterhouse inspections. Dr. Horne was asked about a memo sent by a FSIS regional supervisor to his inspectors last March, directing them to "slow the lines down, stop operations if you have to keep meat clean". It was reported that after industry officials complained the memo was yanked by Washington. When Dr. Horne was asked about this matter, he stated that the inspector "can give his people the direction, the same as everyone else. That's what we're striving for, is uniformity." When asked if it can't be done in writing, he responded, "we prefer that he not so it doesn't conflict with the national policy." Is this an accurate accounting of what occurred regarding this memorandum?

Answer. Two memos were issued on March 2, 1993. One memo originated with Dr. W. S. Horne, Deputy Administrator, Inspection Operations, and was sent to FSIS Inspectors-In-Charge and industry Plant Operators. It restated the Agency's policy of zero tolerance on fecal matter, and included a change in the location in the plant where we were requiring the removal of fecal material as well as insisting that fecal material be trimmed prior to any washing of the carcass. Dr. Horne's memo indicated the concerns associated with *E. coli* and other pathogenic bacterial contamination in beef slaughter and boning plants, reaffirmed and tightened the zero tolerance policy, and directed Agency in-plant inspectors to notify plant management of the standards, closely monitor plant operations, and take appropriate action to assure compliance.

The other memo originated with Dr. Kelly, an FSIS Area Supervisor, and was sent to his immediate in-plant inspector subordinates, located in Nebraska and Kansas, as a way of alerting them to the forthcoming reviews. He reaffirmed the zero tolerance policy and also highlighted a variety of possible actions or activities which might occur. This memo was an advisory and a reminder for local staff. It specifically indicated that Dr. Horne was sending a letter specifying the zero tolerance criteria and indicated that Dr. Horne's letter should be shared with industry.

Once it was determined that two memos had been written, Dr. Kelly, who is one of 26 Area Supervisors, was asked to withdraw his memo in order to alleviate the chance that any inconsistency might result in the way the policy was to be implemented or applied.

Question. What is the national policy referred to by Dr. Horne?

Answer. The policy is that all fecal, ingesta and milk contamination, from any source, must be trimmed prior to any washing of the carcass, and no contamination, however slight, is acceptable.

Question. Haven't inspectors always had the ability to slow or stop a line if they had a reason?

Answer. Yes, inspectors have always had the authority to slow or stop a line if they had a reason. This is true when an Inspector-In-Charge believes that conditions warrant more time for inspection or more time for carcass preparation by the establishment.

Question. In another segment of this report, Dr. Horne stated that he seriously doubted that USDA would ever know what slaughterhouse was involved in the *E. coli* outbreak. Is that correct? If so, are you taking steps to remedy this situation?

Answer. Yes, it is highly unlikely that USDA will ever know exactly what slaughterhouse was involved with the *E. coli* outbreak. The Federal investigation of the January 1993 outbreak led USDA to conclude that although the processor was a modern and automated plant, there were aspects of the operation and record keeping that were more suitable for tracking in-plant operations than for conducting an epidemiological investigation.

Two significant items are important in understanding why it is unlikely that the specific source of the meat will be identified. First, finished product is recorded according to lot numbers. Lot numbers, which are stamped on each box by a labeling machine, change automatically every hour, on the hour. Second, production records capture data representing the supplier or suppliers of raw product used in batches, which are based on weight. A batch begins when the grinding machinery is loaded; it ends when the grinding machinery is low on raw material as indicated by scales; and a new batch begins when the machinery is reloaded. The time at which raw material added to a formulation batch becomes part of an outgoing lot of finished product is not precise. Thus, it becomes very difficult to match a given box of product in a lot of finished product with raw material from a specific source.

Yes, FSIS is taking steps to remedy this situation. These steps include the recently announced two track approach towards refining the present inspection system and developing the inspection program of the future. More specific to this situation, the Agency's Pathogen Reduction Program includes a proposal to issue a regulation that would mandate plant record keeping which would facilitate traceback and epidemiological investigations.



## QUESTIONS SUBMITTED BY SENATOR COCHRAN

## UNFILLED INSPECTOR POSITIONS

Question. The fiscal year 1994 budget requests an additional \$10 million to enable FSIS to increase its inspection staffing by an additional 200 inspectors by the end of fiscal year 1994. FSIS testified earlier this year that there were 550 unfilled inspector positions. Why did you determine that only 200 of these positions needed to be filled?

Answer. All inspector positions need to be filled. The hiring of 200 additional inspectors in 1993-94 is a significant step in addressing full inspection coverage and an important part of the Administration's proposal to improve meat and poultry inspection.

## INSPECTION PROGRAM

Question. You indicate in your testimony, Dr. Cross, that FSIS plans to incorporate all new, proven scientific findings into the inspection program to keep it on the cutting edge. How fast can this be done?

Answer. Because this is a multi-year project, as findings become available, they will be implemented.

Question. Do you plan to use any of the \$8 million investment requested for the Pathogen Reduction Program for this purpose or is this funding entirely for research?

Answer. The \$8 million will be used for a variety of activities -- some of which involve putting microbiological analysis into in-plant inspection activity. The two projects in the Pathogen Reduction Program in which this is most visible are the HACCP micro monitoring projects -- one in ground beef and one in beef slaughter. In both of these projects, Critical Control Points which are amenable to micro monitoring will be identified, critical limits established, and random analyses performed by inspectors. It is expected that these inspection analyses will stimulate and supplement company micro monitoring activities.

Question. GAO testified last month that the current system suffers from its lack of flexibility in that FSIS is required by law to perform continuous inspection at slaughter plants regardless of risk, examining every carcass and visiting each processing plant daily. As a result, it is unable to adjust inspection frequencies. To what extent do you believe this is a problem and do you intend to propose statutory changes that will allow you to slow down line

speeds, when necessary to provide more time for inspection?

Answer. As indicated, FSIS is bound by the Federal Meat Inspection Act and the Poultry Products Inspection Act to perform continuous carcass inspection in all slaughter plants, and daily inspections in processing plants. The research will provide the information necessary to develop an inspection system that will allocate resources based on risk.

The Agency's present regulations establish maximum rates of slaughter under optimum conditions for all classes of amenable species. The Inspector-In-Charge assigned at each slaughter plant is authorized to require linespeed reductions when, in his judgement, conditions warrant more time for inspection or more time for carcass preparation by the establishment. We are reviewing the need to submit legislative amendments.

#### MICROBIAL TESTING

Question. GAO has also indicated that FSIS does not routinely perform microbial tests of equipment, surfaces or raw products, nor does it require the industry to perform such tests. Since microbial pathogens pose the most serious public health risk associated with meat and poultry, what is FSIS doing to promote microbial testing?

Answer. In addition to putting microbiological analysis into in-plant inspection activity, as discussed earlier, the Agency has recently determined that it will modernize its pre-operations sanitation program to include micro monitoring techniques. The change will be piloted this year and implementation will begin early in 1994.

#### ANIMAL IDENTIFICATION AND TRACEBACK

Question. Dr. Cross, your testimony indicates that the groundwork for a future inspection system must include the use of animal identification and traceback methods to determine the sources of potential or actual infections. What are our current traceback capabilities and what further improvements need to be made in this area?

Answer. Currently, swine represent the only slaughter class with identification mandated by regulation. The APHIS-regulated Swine ID -- tatoos -- and owner traceback are highly successful for market hogs -- young hogs making up the bulk of slaughtered animals. Mature hogs are ordinarily identified by APHIS-approved back tags which, even under the best of

circumstances, tend to fall off. APHIS and industry are studying improved means of ID's suitable for mature swine. Identification and traceback are generally good for mature cattle -- cows, bulls -- through the application of Market Cattle Testing Program back tags used for APHIS programs.

No Federal identification systems are in place for other slaughter classes of livestock or poultry. Success in tracing ownership is variable. It is more successful for large lots sent directly to slaughter from one owner compared to animals disbursed through auction markets and commingled. It is also influenced by packers' individual need to maintain identity of animals by source as part of their purchasing and quality control practices. Integrated firms, especially common for poultry, raise and slaughter their own animals. These firms maintain flock ID throughout the slaughter process. A "snapshot" of recent active residue violation cases revealed the following percentages of cases that could be traced to the owner -- farm, ranch, feedlot: cattle - 95 percent, calves - 90 percent, sheep - 71 percent, swine - 81 percent, horses - 81 percent. This "snapshot" may not accurately reflect the traceback capability on a continuing basis.

#### ROLE OF PRODUCERS

Question. What role do you see producers playing in assuring that meat and poultry products are safe?

Answer. The producers of animals and birds that are presented for slaughter and further processing are responsible for ensuring the safety and wholesomeness of their products. This includes safe use of antibiotics and growth hormones, keeping the animals and birds free of disease, and delivering them to the shipper or slaughter establishment in a healthy condition. FSIS is responsible for overseeing the slaughter and processing operations and enforcing food safety laws.

#### IMPORTS

Question. What is the risk of contaminated meat imports given the fact that only a small percentage of imports are actually inspected and there is no way to police food handling outside the United States?

Answer. The Federal inspection laws require countries exporting to the United States to establish and maintain inspection systems equivalent to those of the United States. Countries must undergo a rigorous review process including their laws, regulations, and inspection operations before they can export to the

United States, and only about 40 countries are currently eligible to do so. FSIS relies on the exporting country to carry out daily inspection; FSIS monitors the effectiveness of the foreign inspection systems through on-site reviews of the systems in countries exporting to the U.S. and through reinspection of meat and poultry on a sample basis as it enters the United States. Reinspection is performance based and is directed by an automated system, which stores inspection results for each country and plant thereby assuring that poorer performing plants have their products reinspected more frequently.

Question. Do free trade agreements, such as the North American Free Trade Agreement now under consideration, increase or reduce this risk?

Answer. NAFTA will encourage freer commerce, but it will neither dictate inspection procedures nor supersede U.S. laws, which require imported meat and poultry to meet the same safety standards as domestic product.

#### USER FEES

Question. Secretary Branstool, you indicate in your testimony that recovering 100 percent of the cost of inspection service provided beyond a primary approved shift, as proposed, is authorized by the Federal Meat Inspection Act; and the proposed new user fees for laboratory accreditation are authorized by the 1990 FACT Act. The fiscal year 1994 budget requests appropriations bill language which is described as being needed to allow FSIS to charge and retain such fees for laboratory accreditation, and for the full cost of inspection services performed at times other than during an approved primary shift, as established by regulation. Why is this language necessary if these user fees are already authorized by law?

Answer. FSIS is authorized to charge and retain user fees for laboratory accreditation under P.L. 102-237. However, the statute is not as clear as to the authority to credit such fees to FSIS. The proposed appropriations language would assure an offset of fees collected to our appropriations rather than simply credited to the general receipts of the U.S. Treasury. The appropriations language to charge and retain user fees for the full cost of inspection services performed outside of a single scheduled and approved primary shift is also necessary to clarify the authority for the fees and the disposition of collected funds.

Question. What is the definition of "primary approved shift" for the purpose of the new user fees proposed?



Answer. An approved shift is defined as a regularly scheduled designated operating period, as established by regulations prescribed by the Secretary. A shift is usually eight hours, although it may be nine or ten hours in some plants operating a shorter work week that have received approval for the longer shifts from USDA. If user fees are extended to secondary shifts, "primary" approved shifts will be defined in implementing regulations, and will be subject to public comment and review.

Question. How did you calculate the \$97.7 million that would be collected from the proposed new inspection fees and \$6.4 million from new laboratory accreditation fees in fiscal year 1994? Please specify how many second shifts were assumed; how many positions were estimated to be required; and the rate per hour to be charged for second shift inspections.

Answer. The Agency has calculated that \$103 million would be collected from the new second shift inspection fees and \$1 million from new laboratory accreditation fees in fiscal year 1994.

The laboratory accreditation fee was based on approximately 300 accreditations per year at the current cost of about \$3,500 per accreditation.

The new second shift inspection fees of \$103,000,000 is based on a survey of all plants, which found that approximately 1,150 plants were operating more than one shift which required nearly 1,850 inspector positions. Although the second shift rate per hour has not yet been established, it should be close to the current rates of \$29.00 to \$30.00 per hour. Costs of supervisory, administrative, laboratory, and other technical support are also included in the \$103,000,000.

Question. You indicate these fees would be established by regulation. How long would it take to establish and start collecting these fees, if approved?

Answer. Upon indication that these fees will be approved by Congress for fiscal year 1994, the Agency will immediately prepare proposed regulations for collecting the fees. It is anticipated that it may require several months to complete the process to establish the final regulation. The estimate of \$104,000,000 in user fees in the fiscal year 1994 Budget is based on the assumption that the collection of those fees will begin on October 1, 1993.

#### SEAFOOD INSPECTION

Question. In the 101st and 102nd Congresses, I introduced legislation to allow the Department of Agriculture to take the lead role in inspection of our

nation's fish and seafood products. The bill I introduced in the last Congress, which passed the Senate, allowed the Food and Drug Administration to set standards and tolerances and the Commerce Department to monitor restricted fishing waters. What are your views on publicly-funded inspection of fish and seafood products by the Department of Agriculture?

Answer. The Department of Agriculture supports a public health inspection system for fish and seafood products that incorporates risk-based principles and employs Hazard Analysis and Critical Control Point methods. Such a program must include research and industry studies necessary to put the program on a sound scientific footing. Standards and procedures must be developed and personnel hired and trained in inspection and enforcement, import inspection, laboratory support, and other support activities. When public debate is concluded, USDA would accept the challenge of providing the defined support or leadership role necessary to assure the success of the program.

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## QUESTIONS SUBMITTED BY SENATOR GORTON

### COOKED HAMBURGER PATTIES

Question. At last February's food safety hearing, I submitted questions on the E.coli bacteria for response by the Centers for Disease Control. In response to one question, CDC cited a 1991 study in which researchers reached several important conclusions. Of particular interest to me was the CDC recommendation of the need for regulations which require that "cooked hamburger patties and other meats be sufficiently precooked to kill pathogens."

I note in your prepared testimony you indicate that "USDA is moving to publish a final regulation establishing time and temperature minimums for the processing of partially cooked hamburger patties." My question is this, what kinds of food products are we talking about and where do consumers come into contact with these products?

Answer. There are three classes of cooked patties addressed in the proposed regulation: fully-cooked, partially-cooked, and char-marked. The fully-cooked patties will be treated sufficiently to destroy all food-borne pathogens which may be present. The partially-cooked patties will be labeled as partially-cooked and will require the end-user to further cook the product. The char-marked patties are raw and provide the consumer with a product that appears char-broiled. Both the partially-cooked and the char-marked

patties will be labeled with handling statements to ensure proper cooking and destruction of food-borne pathogens.

The kinds of food products included in these classes include the following uncured meat products: hamburgers, Salisbury steaks, breaded and battered chopped veal steaks, beef patties, and pork sausage patties.

Consumers could purchase the products in the grocery store as separate items or in pre-prepared entrees such as "TV" dinners and heat-and-serve packages. In addition, the products could be purchased in vending machines, requiring minimal heating before consumption.

Question. What regulations govern these precooked foods right now?

Answer. We do not, at this time, have any regulations which specify minimum cooking temperatures or times for patties.

Question. Were you aware of the 1991 CDC recommendation of the need for cooking regulations on these food products?

Answer. Yes, we were aware of it.

Question. Is the FDA "model food code for states," which gives the states suggested cooking and temperature guidelines, insufficient -- in this instance -- to assure food safety?

Answer. No, it is a proper first step. The guidelines are effective, and the compliance rate is expected to be quite high. The "guidelines" are intended to be adopted by state and local governments as requirements to be followed by retail and food service handlers of potentially hazardous foods. State and local food regulatory agencies across the country enforce either the current "guidelines" or prior versions of them, all of which require proper cold storage and cooking of potentially hazardous foods.

#### MANDATORY REPORTING OF E.COLI CASES

Question. Recently, Dr. Besser, a CDC researcher, made the recommendation that states be required to report E.coli bacteria infections to public health departments. Currently only 11 states -- of which one is Washington state -- report cases of E.coli bacteria infection. CDC stated that mandatory reporting of E.coli infections would enable a better understanding of some basic questions associated with the bacteria -- in particular how many people are sickened by the bacteria each year and is this number rising? As

stated by CDC, "national data is not available because few clinical laboratories look for [the E.coli] organism routinely, and few state health departments require laboratories that identify it in patient specimens to report it to the public health department."

It seems to me that CDC views "mandatory reporting" as a cornerstone of understanding more about the occurrence and prevention of the E. coli bacteria. In light of this, will your food safety reform proposals consider this recommendation made by CDC?

Answer. The Food Safety and Inspection Service relies on outbreak and statistical information received from the Centers for Disease Control in focusing its programs for control of foodborne pathogens in meat and poultry products. The Agency views favorably the CDC recommendation to require illness reporting by States. In a similar fashion, the Department is anticipating expansion of its authority to require identification of animals entering the slaughterhouse for more effective trace back from the processing plants to the farm.

#### SAFE FOOD HANDLING LABELS

Question. I am interested in the recent court settlement in which USDA agreed to publish proposed "safe food handling labels" rules for public comment by August 15 of this year. I would be in strong support of labels which are used as a tool for better consumer awareness of the need to thoroughly cook meat and poultry. I would be concerned, however, if the content of these labels is construed to be a type of "warning label."

I realize that FSIS is working on the wording of these labels, and the cost associated with the labels, but I wonder if you could share with us what FSIS considers the purpose of the labels -- a consumer awareness label or a "warning" label?

Answer. FSIS considers the purpose of safe-handling labeling to be the education of household and institutional food preparers. These food preparers must be made aware that certain safe-handling procedures, such as proper cold storage and cooking, are essential. If these preparers can be made aware of the need for such preventive measures through consumer awareness labels, warning labels will not be necessary.

Question. Will you be working closely with industry and consumer groups on the content of the label?

Answer. FSIS will be conducting focus group studies to determine what ways of presenting safe-



handling information through labeling are most effective. These studies will help shape a proposed rule. Industry and consumer groups will be able to participate through this notice and comment as part of the rulemaking procedure.

Question. Do you need any legislative authority to mandate these labels or can it be done administratively?

Answer. No additional statutory authority will be needed to require safe-handling labeling.

#### FDA MODEL FOOD CODE

Question. As I previously stated, the Food and Drug Administration publishes a "model food code for states" which provides states with suggested cooling and temperature guidelines. After the E.coli epidemic in Washington state, the FDA issued an "emergency modification" which revised its model code for cooking of hamburger from 140 degrees to 155 degrees.

Although this question could also be directed to FDA, what is your assessment of the effectiveness of these "suggested" guidelines? Specifically, does a "suggested" guideline bring about the necessary compliance in order to assure consumer safety?

Answer. The suggested guidelines are intended to be adopted by State and local governments as requirements to be followed by retail and food service handlers of potentially hazardous foods. State and local food regulatory agencies across the country enforce either the current suggested guidelines or prior versions of them, all of which require proper cold storage and cooking of potentially hazardous foods.

Adoption of the requirements in local codes is only a first step. Proper enforcement of state and local codes are essential to ensure compliance with them.

#### LEGISLATIVE PROPOSAL

Question. I am somewhat familiar with USDA's food safety reform proposals and am particularly interested in the status of the "Track I" proposal which, it would appear, would be ready to go more quickly than "Track II." What is your time line for Track I? Will you need Congressional authorization for all or part of the proposals contained within Track I? If so, do you intend on submitting your proposal to Congress this session?

Answer. Our goal in Track I is to modernize the inspection program and make it as effective as possible

within the limitations of present legislative authority and scientific methodology. Therefore, we do not anticipate changes in legislation to accomplish this part of our program.

We are already proceeding to implement Track I. Regional meetings are now being held to solicit public comment on our strategic plans and to elicit additional ideas for program improvement. We have also included in our 1994 budget a request for additional inspectors to improve our ability to detect potentially threatening food handling conditions in plants. We are also undertaking studies to develop a microbiological baseline against which we can evaluate the effectiveness of future changes in inspection methods. We have included in our 1994 budget, a request for funds that will enable us to develop more scientific means of evaluating the safety of products presented for inspection.

These efforts to maximize the effectiveness of the present program will continue until the Track II studies are completed, and any necessary legislative changes are presented to Congress and enacted into law. It is still much too early in the Track II program to predict when these legislative requests will reach Congress. Our 1994 Budget request does not contain funding for any legislative proposals associated with either Track I or Track II.

We are, however, conducting a series of public hearings to receive input on needed changes in inspection procedures and laws. Thirty days after the last hearing on June 18, we will present a series of proposed changes in our statutory authority to the Secretary. To permit more effective traceback from the plant to the producer, it is anticipated that the proposals will include expansion of the Department's authority to require identification of animals entering the slaughter plant. It is our intent to present these proposals to Congress by the end of the year.

#### INCREASED INSPECTION STAFFING

Question. Within your written testimony, Dr. Cross, you highlight that there has been some debate over the need for an additional 160 meat inspectors, as requested within the President's ill-fated stimulus package. It is argued by some that visual inspection is an important component of ensuring the safety of our meat supply. I am undecided as to whether or not the additional meat inspectors are entirely necessary and would like to hear from you -- as an expert in the field -- a justification of the request of an additional 160 meat inspectors?

Answer. It is certainly true that an inspector cannot see bacteria on the product. But what the

inspector can see are the conditions under which bacteria can grow and contaminate the product. The inspector can see fecal contamination of meat. The inspector can see dirty machinery, or signs of rodent infestation. The inspector can see unsanitary product handling, and whether the product is being heated to a temperature sufficient to kill bacteria. While there are limitations on what an inspector in the plant can do, there is no doubt that his presence is a major factor in assuring the safety of the product.

In order to determine the number of inspectors necessary for this program, we have evaluated every plant to determine what inspection tasks must be accomplished, and how frequently they must be accomplished to assure the safety of the product. We have determined how much time the inspector should spend on each task. From this information we have determined the staffing necessary to do the job properly. When employment is less than sufficient to meet these requirements, some jobs do not get done. The request for 160 additional inspectors will enable us to begin filling the most critical of these vacancies.

## ANIMAL AND PLANT HEALTH INSPECTION SERVICE

## QUESTIONS SUBMITTED BY SENATOR BUMPERS

## ]USER FEES[

Question. Is it true that you believe you should have about a 25-percent operating reserve in the user fee account for agriculture quarantine inspection.

Answer. When the original agricultural quarantine inspection (AQI) user fees were developed, we determined a reasonable balance, or reserve, in the AQI Account to be approximately one quarter of our annual operating expenses. The reserve is intended to ensure that the Agency has access to sufficient operating funds in cases of bad debt, carrier insolvency, and fluctuations in activity volumes.

During the rate revision process for the international air passenger, commercial aircraft, and commercial vessel user fees, we re-evaluated the reserve requirements for these fees. Each category must, through user fee receipts, return sufficient funds to APHIS to cover the cost of providing AQI services to that particular category. We determined that our reserve requirement must be based on the collection pattern of each AQI user fee. The reserve is now based on the collection pattern for each fee type, rather than an amount equal to 3 months operating expenses.

Collections of the international air passenger user fees are remitted on a quarterly basis and are due to APHIS 31 days after the end of the calendar quarter. The commercial aircraft user fees are also due to APHIS 31 days after the end of the calendar quarter during which they were incurred. On the other hand, the commercial vessel user fee is collected for APHIS by the United States Customs Service and forwarded to APHIS monthly. While the collection patterns of the international air passenger and commercial aircraft user fees dictate a 3 month operating reserve, the collection pattern for the commercial vessel user fee dictates a 1 month operating reserve.

APHIS plans to use the same rationale for a reserve for the commercial truck and loaded railroad car user fees during our review of these fees. The commercial truck user fee is also collected by Customs. For this fee, a 1 month operating reserve would be appropriate. However, the loaded railroad car user fee is remitted by the railroad companies 60 days after the month of service. For this fee, a 2 month operating reserve would be appropriate.

Question. That reserve should be about \$20-25 million?

Answer. During our original fee calculations, we included \$20.5 million in the fees for an operating reserve. This represented approximately three months of costs for services provided to international air passengers, commercial aircraft, commercial vessels, commercial trucks, and loaded railroad cars. For FY 1993, our reserve requirement, based on collection patterns, is \$17.1 million.



At the end of Fiscal Year (FY) 1992, the international air passenger user fee had a reserve of approximately \$15.9 million and the commercial vessel user fee had a reserve of approximately \$6.8 million. These amounts exceed the reserve requirements based on collection patterns. For this reason, we re-calculated both fees without an amount for a reserve.

The commercial aircraft, commercial truck, and loaded railroad car user fee costs either matched or exceeded revenue in FY 1992. For this reason, these fees must be calculated at an amount that would return sufficient funds to the Agency to cover the cost of the program plus the reserve requirement.

Question. Your reserve at the end of 1992 is \$35 million. What is your projected reserve for the end of 1993?

Answer. At the end of FY 1993, we project a total reserve of \$50.1 million. This reserve will consist of (in millions):

FY 1991 Capitalized Reserve		\$18.4
FY 1992 Reserve:		
International Air Passenger	\$15.9	
Commercial Vessels	<u>6.8</u>	
Total FY 1992 Additions		22.7
FY 1993 Reserve:		
International Air Passenger	3.6	
Commercial Aircraft	3.6	
Commercial Vessel	<u>1.8</u>	
Total FY 1993 Additions		<u>9.0</u>
Total Reserve - FY 1993		<u>\$50.1</u>

In our November 1992 Report to Congress, APHIS projected FY 1992 revenue of \$101.2 million. Our actual revenue for the period was \$107.6 million. At the same time, we experienced an additional \$1 million in collections for AQI user fees due in FY 1991. The additional revenue for FY 1991 and FY 1992 resulted from a combination of debt management efforts, formal audits, and unanticipated increases in the volume of user fee activity.

When APHIS realized that the reserve accounts could grow disproportionately to the fees, we took action to recalculate and reduce the fees. However, the rate reduction was subject to regulatory review. As a result, the reduced fees were not implemented until January 1, 1993. As a result, first quarter collections were at the higher rates. This resulted in additions to the reserve in both the international air passenger and commercial vessel user fees.

At the end of FY 1992, the commercial aircraft user fee program did not produce enough revenue for a reserve. This was due to the delay in implementation of that fee until February 9, 1992. APHIS collected fees for commercial aircraft for only a portion of

the fiscal year, yet incurred costs for the program for the entire fiscal year. During our rate revisions, we calculated the commercial aircraft user fee to include a reserve amount. As a result, we project to add \$3.6 million in commercial aircraft user fee reserve to the account during FY 1993.

Question. When do you plan to publish a final rule reducing the user fees for international air passenger, commercial aircraft and commercial vessel user fees?

Answer. APHIS published the international passenger, commercial aircraft, and commercial vessel user fee rate revisions as an interim rule. Under an interim rule, the reduced rates became effective immediately upon publication. The interim rule also allows for a comment period, while at the same time allowing the public the benefit of the reduced rates. APHIS received six comments on the interim rule. We are in the process of evaluating and responding to these comments. We will publish a final rule as soon as this process is completed.

Question. How much are the fees now and by how much will the fees be reduced?

Answer. In the interim rule, APHIS reduced the international air passenger user fees from \$2.00 to \$1.45, the commercial aircraft user fees from \$76.75 to \$61.00, and the commercial vessel user fees from \$544.00 to \$369.50. These fees became effective on January 1, 1993.

Question. How much will you propose to increase the fees for commercial truck and loaded railroad cars?

Answer. APHIS is still in the process of evaluating the cost of the commercial truck and loaded railroad car user fees. During 1993, APHIS began a joint truck decal program with the Customs Service. This program allows commercial trucks to purchase the APHIS and Customs decal in one purchase. Prior to this program, commercial trucks had to submit two applications for decals. We are evaluating whether the joint decal has stimulated sale of the decals and the effect these sales has had on total commercial truck user fee revenue. Since most decal sales occur during the first portion of the calendar year, APHIS will soon have sufficient data to determine if any fee adjustments are necessary.

APHIS has initiated debt management procedures to identify and collect past due user fees from companies receiving service, but not currently paying user fees. In addition, we are reviewing payment histories to ensure that all fees due to APHIS are collected. This practice has resulted in additional collections of FY 1991 and FY 1992 revenue due to APHIS. Several recent payments of past due loaded railroad car user fees must be evaluated and compared with cost for service during this period. We are in the process of determining what, if any, adjustments must be made to the loaded railroad car user fees.

In addition, we must also determine the effect of the reduced reserve requirement for both the commercial truck and loaded

railroad car user fees. APHIS plans to make determinations on both these fees before the end of FY 1993.

Question. What is meant when you say that you intend to use the reserve "to capitalize the AQI user fee account"?

Answer. APHIS implemented the first AQI user fee during FY 1991; at the same time, APHIS had an appropriation to cover the cost of the AQI program. The funds collected during FY 1991 were intended to capitalize the user fee account. These capitalized funds are intended to cover shortfalls in any AQI user fee program that does not have a reserve balance. For example, in FY 1992, the commercial aircraft user fee program experienced a deficit due to the delay in implementation of that fee until February 9, 1992. In addition, the commercial truck and loaded railroad car user fees also experienced a deficit due to higher than projected costs and lower than projected volumes of activity and collection. These deficits, which totaled approximately \$3 million, were offset by the capitalized reserve from FY 1991.

#### ]FRUIT FLIES[

Question. You show that in the no-year and emergency program for fruit flies, while you had \$8 million for 1992, you carried over more than \$1 million into 1993 and that \$25,860,000 was appropriated for 1993 so the total available in 1993 is more than \$27 million.

We didn't actually appropriate the funds for that purpose, did we? Didn't you transfer funds for this purpose?

Answer. Appropriated funds for FY 1993 fruit fly related activities include: \$10,213,000 for the Mediterranean fruit fly exclusion program; \$1,700,000 for the Mexican fruit fly exclusion program; and \$3,976,000 for the fruit fly detection program. All APHIS funding for exotic fruit fly emergency eradication activities in California was transferred from the Commodity Credit Corporation (CCC) as a result of an emergency declared by the Secretary of Agriculture.

Question. How much of that fund do you expect to use this year?

Answer. APHIS anticipates that the entire \$25,860,000 amount transferred from the CCC for emergency fruit fly eradication activities will be expended by the end of FY 1993.

Question. Please show the amounts transferred and from where.

Answer. Fruit fly infestations were detected in California during the latter part of 1991, and a state of emergency was declared by the Secretary of Agriculture on January 3, 1992. As a result of this emergency \$9,400,000 was transferred to APHIS from CCC funds. At the end of FY 1992, a balance of \$1,281,926 remained available and was carried over for use in FY 1993. Because of continued fruit fly detections and eradication needs, another CCC

request was forwarded, and \$25,860,000 in CCC funds have been transferred to APHIS in FY 1993.

#### [ANIMAL DAMAGE CONTROL]

Question. There was a recent news article about your efforts to control gulls at New York airports. It seems to me that the Animal Damage Control program should be for the protection of agriculture.

How is it that you are carrying out these activities?

Answer. The Animal Damage Control (ADC) Act of 1931 not only authorizes APHIS to control wildlife injurious to agricultural resources, but also authorizes measures to protect wild game animals, furbearing animals, and birds. This Act was amended in 1988 to authorize control of nuisance mammals and birds, and those mammal and bird species that are reservoirs of zoonotic diseases. Also, a number of these activities have been ongoing for years, and continued after the transfer to USDA. In recent years, the Congressional appropriations reports have included language directing ADC to maintain full funding for existing programs.

At the request of the Port Authority of New York and New Jersey, APHIS is conducting a hazard management program at John F. Kennedy International Airport to reduce gull-aircraft collisions and minimize the immediate threat to human health and safety. This effort includes exhaustive environmental studies and interagency coordination as well as direct management of local gull populations. APHIS is directly involved because ADC personnel possess the technical expertise to identify and mitigate underlying causes of wildlife hazard problems. This project is fully funded by the Port Authority of New York and New Jersey.

Question. Isn't the FAA responsible for airport safety?

Answer. The Federal Aviation Administration (FAA) is responsible for ensuring that airport operations are conducted in a safe manner. Federal Aviation Regulations, CFR Part 139.337--Wildlife Hazard Management--requires each certified airport to conduct an ecological study whenever an air carrier experiences a multiple bird strike or engine ingestion, experiences a damaging collision with wildlife other than birds, or whenever wildlife of a size capable of causing damage or strikes have access to any airport flight pattern. The mandatory ecological study determines whether or not there is a need for a wildlife hazard management plan for the airport.

The FAA and APHIS established a cooperative relationship under a Memorandum of Understanding (MOU) in 1989 for resolving wildlife hazards to aviation for the benefit of public safety. According to the terms of the MOU, APHIS is responsible for providing recommendations, technical or operational assistance, and training to airport personnel to minimize wildlife hazards.

Question. In what other areas are you involved that is not for explicit protection of agriculture?



Answer. Besides preventing wildlife conflicts at airports, the ADC program also protects human health and safety through the suppression of serious zoonotic diseases such as rabies, plague, and histoplasmosis. Activities are also conducted to help protect property and natural resources, such as endangered species, from wildlife damage. The bulk of these activities are supported through cooperative funding.

Question. What resources are you expending on these activities?

Answer. During FY 1992, ADC expended the following amount from the Federal appropriation to protect resources listed below:

Agriculture.....	\$14,789,089
Human Health and Safety.....	\$1,349,653
Property.....	\$2,122,357
Natural Resources.....	\$533,558

#### ] PEST ERADICATION[

Question. Your testimony speaks of the eradication of certain pests. Have we really eradicated avian influenza? There is no incidence of it in the country?

Answer. APHIS regularly conducts surveys for AI every year as part of the poultry diseases program. During FY 1991, AI surveys were conducted at live-bird markets in Connecticut, Massachusetts, Rhode Island, New York, New Jersey, Florida, Pennsylvania, and other States. All markets were negative for the H5N2 AI virus which caused the 1983-84 outbreak that led to a \$63 million emergency program. In FY 1992, the Agency conducted surveillance at live-bird markets in these same States, and identified a non-disease producing AI virus in poultry in New Jersey.

On December 23, 1992, a turkey flock in Pennsylvania was found to have H5N2 antibodies, which means that they had been exposed to the virus and may become ill and spread the disease in the future. Subsequently, birds in backyard flocks or live-bird markets in Delaware, Florida, Maryland, Michigan, New Jersey, Pennsylvania, and Virginia were also found to have H5N2 antibodies. In addition, H5N2 AI virus isolations were made by the National Veterinary Services Laboratories from specimens collected at live-poultry markets in New Jersey, New York, and Pennsylvania, as well as from a backyard flock in New Jersey. Testing is being conducted in surrounding flocks which have H5N2 antibodies, and those from which the virus has been isolated. All isolations continue to be of a non-disease producing virus. The States of Delaware, Hawaii, Maryland, New Jersey, New York, Pennsylvania, and Virginia have placed restrictions on the movement of poultry and/or birds from affected States.

APHIS has spent approximately \$218,000 from the poultry disease line item on AI surveillance and laboratory work as of April 30, 1993. Because the H5N2 AI found in the recent outbreaks has the potential to increase in virulence that could cause widespread devastation of poultry, \$780,385 was released from the contingency fund on May 24, 1993 to cover costs associated with

cleaning up infected flocks; to conduct further surveillance, epidemiological studies, and investigations; and to provide biosecurity information to State officials and international counterparts. States and industry will contribute personnel and make indemnity payments for birds that are depopulated, and conduct tests for H5N2 AI viruses.

Question. What about the Asian gypsy moth? Just recently, it was a new and very real threat in the Pacific Northwest. Have we really eradicated already?

Answer. In the spring of 1992, APHIS, in cooperation with Forest Service and the States of Washington and Oregon, conducted treatments using *Bacillus thuringiensis* (Bt) to eradicate the Asian gypsy moth (AGM). After treatment, no AGM's were captured during the subsequent trapping survey program. APHIS needs to conduct surveys for two consecutive years without a positive find to confirm eradication. Currently, APHIS is in the second year of conducting AGM surveys in Washington and Oregon. These surveys are funded from carryover funds made available in fiscal year 1992 when the Secretary of Agriculture declared an emergency and used transfer authority from the Department's CCC.

#### [ANIMAL DAMAGE CONTROL]

Question. What amount of your budget is spent on nonlethal control methods? Please break it down by type of method, for what pest, and specify whether the funding is for research or actual control work.

Answer. APHIS's Animal Damage Control program uses an Integrated Wildlife Damage Management approach to solving wildlife conflicts. This strategy consists of a combination of several methods applied to each problem and may include both lethal and nonlethal control methods. Because a specific wildlife conflict may be resolved using a combination of different methods, it is not possible to measure the separate contribution of each method to total effectiveness. However, statistics are available on the current allocation of research funds among lethal and nonlethal methods. In FY 1993, ADC's Denver Wildlife Research Center will spend approximately \$4.5 million (55 percent) of their total research budget on nonlethal methods research, as follows:

\$1.8 million for bird research, including: varietal resistance of corn, sunflower, fruits, and other crops to bird damage; aversive learning compounds; physical and chemical bird repellents; and habitat manipulation to reduce habitat suitable for bird pests.

-- Specific examples include: the evaluation of liquid and encapsulated formulations to repel gulls at landfills and airports, and to protect agricultural crops and turf from damage by grazing waterfowl; evaluation of nontoxic seed coatings as blackbird repellents to prevent damage on sprouting and ripening rice; evaluation of preferred winter roosting habitats as a means of attracting blackbirds away from areas where they are a nuisance or health hazard; and

evaluation of nighttime harassment of wintering cormorant roosts to reduce predation losses at aquacultural sites.

\$1.7 million for predator and non-predatory mammal research, including: improvements in baits and delivery systems for nonlethal compounds; aversive learning studies; mechanical and electronic capture devices; and impacts of sterilizations on predator populations.

-- Specific examples include: surgical sterilization of coyotes to simulate and evaluate the potential impacts of sterilization strategies to reduce predation on sheep; evaluation of mechanical and electronic capture devices for coyotes; examination of land use, husbandry practices, and guarding animals to improve integrated management strategies for coyote depredation control; examination of supplemental feeding for managing bear damage to commercial forests; evaluation of systemic and natural product repellents for reducing damage to forest and agricultural crops by deer and a variety of rodent species; and evaluation of physical, chemical, and odor barriers for managing rodent damage to sugarcane and macadamia nut crops.

\$1 million for registration of chemical repellents, stupefying agents, and sedatives; research on mammalian immunosterilization; population modelling; and electronic repellent devices for both birds and mammals.

-- Specific examples include: completion of Food and Drug Administration requirements to allow operational use of alpha-chloralose as a stupefying agent for pigeons and waterfowl; initial development of a tranquilizer tab to sedate trapped mammals; continued data development for the registration of a waterfowl and gull repellent around airfields and golf courses; development of an electronic repellent device for beavers; continued development of immunocontraceptives for white-tailed deer, including oral delivery systems, continuation of contractual studies on DNA sequencing and immunocontraceptive deer herd tests; and development of immunocontraceptive techniques development in rats.

Question. Please provide for the record the amounts of funding for the various ADC projects as included in the House and Senate reports for the last three years. Also show the amounts included in the 1994 budget for these projects.

Answer. The information follows:

FUNDING FOR ANIMAL DAMAGE CONTROL PROJECTS  
AS DIRECTED IN HOUSE AND SENATE REPORTS  
FY 1991 - FY 1994  
(dollars in thousands)

<u>Project</u>	<u>FY 1991</u>	<u>FY 1992</u>	<u>FY 1993</u>	<u>FY 1994</u>
<u>House:</u>				
Minnesota Wolf Control Program	---	250*	250	250
<u>Senate:</u>				
Alabama State Office	100*	100	100	100
Mississippi Operations	100*	100	100	100
Arkansas State Office	240*	240	240	240
Cattail Management (ND)	100*	200*	200	200
Blastomycosis	19*	-	-	-
Delta States Operations	\$275*	\$275	\$275	\$275
<u>Conference:</u>				
Blastomycosis	(0)*	-	-	-
Total	\$834	\$1,165	\$1,165	\$1,165

\* Funding specified in Committee report.

Question. Please provide a state distribution of ADC funds--both for operations and for methods development.

Answer. The information follows:

STATE DISTRIBUTION OF ADC FUNDS  
FY 1993 (Estimated)  
ADC OPERATIONS

	<u>Appropriated</u>	<u>Non-Federal</u>
Alabama	\$100,000	\$3,834
Alaska	44,000	38,342
Arizona	452,000	325,032
Arkansas	240,000	--
California	1,509,000	1,774,303
Colorado	2,018,000	279,470
Florida	80,000	--
Georgia	93,000	42,800
Hawaii	84,000	439,903
Idaho	807,000	330,280
Illinois	74,000	732
Indiana	83,000	13,905
Kansas	30,000	--
Kentucky	97,000	106,600
Louisiana	303,000	56,751
Maine	125,000	76,200



Maryland/Delaware/District of Columbia	4,967,000	25,000
Massachusetts/Rhode Island/Connecticut	82,000	12,743
Michigan	99,000	13,361
Minnesota	552,000	28,130
Mississippi	488,000	450,459
Missouri/Iowa	135,000	22,500
Montana	918,000	621,601
Nebraska	404,000	153,319
Nevada	698,000	539,600
New Hampshire	203,000	51,100
New Jersey/Pennsylvania	140,000	330,000
New Mexico	1,115,000	905,857
New York	116,000	11,400
North Carolina	100,000	16,975
North Dakota	818,000	260,588
Ohio	156,000	40,000
Oklahoma	729,000	660,032
Oregon	949,000	707,642
South Carolina	120,000	30,000
South Dakota	300,000	835,062
Tennessee	668,000	259,750
Texas	2,298,000	4,336,809
Utah	1,177,000	747,259
Vermont	52,000	22,538
Virginia	142,000	81,914
Washington	495,000	596,216
West Virginia	93,000	9,000
Wisconsin	510,000	674,739
Wyoming	949,000	947,181
Total	<u>\$25,612,000</u>	<u>\$16,878,927</u>

STATE DISTRIBUTION OF ADC FUNDS  
FY 1993 (Estimated)  
ADC METHODS

Appropriated

California	\$137,000
Colorado	5,737,000
Florida	222,000
Idaho	176,000
Maryland/Delaware/District of Columbia	188,000
Minnesota	8,000
Mississippi	638,000
Montana	3,000
New Jersey/Pennsylvania	279,000
North Dakota	398,000
Ohio	268,000
Texas	124,000
Utah	723,000
Washington/Hawaii	<u>616,000</u>
Total	<u>\$9,517,000</u>

## ]BOLL WEEVIL[

Question. What are the funding levels for the various boll weevil programs for 1992, 1993 and 1994?

Answer. The information follows:

Boll Weevil Funding  
(dollars in thousands)

	<u>FY 1992</u>	<u>FY 1993</u>	<u>FY 1994</u>
Southeast	\$10,636	\$10,624	\$8,605
Southwest	812	1,860	661
High Plains	568	651	600
<b>Total</b>	<b><u>\$12,016</u></b>	<b><u>\$13,135</u></b>	<b><u>\$9,866</u></b>

## ]CATTLE TICKS[

Question. What are the funding levels of the cattle tick programs in Texas and Puerto Rico for 1992, 1993 and 1994?

Answer. The funding levels for the cattle tick program in Texas and Puerto Rico for 1992, 1993, and 1994 follow:

Cattle Tick Funding - Texas and Puerto Rico (\$000)			
Fiscal Year	Texas	Puerto Rico	
		APHIS	FNS
1992	\$4,666	\$1,302	\$10,825
1993 est.	\$4,525	\$1,647	\$10,825
1994 est.	\$4,655	-0-	* \$10,825

\* A reimbursement from FNS

## ]BIOLOGICAL CONTROL[

Question. Please provide the funding levels for programs under the biological control program including the Russian wheat aphid and leafy spurge for 1992, 1993, and 1994.

Answer. The information follows:

Biocontrol Funding  
(dollars in thousands)

<u>Project:</u>	<u>FY 1992</u>	<u>FY 1993</u>	<u>FY 1994</u>
<u>Biocontrol line item:</u>			
Alfalfa weevil	105	0	0
Colorado potato beetle	469	480	530
Diffuse & spotted knapweed	515	515	515

European corn borer	463	207	50
Euonymus scale	515	615	716
National Biological			
Control Institute (NBCI)	732	732	732
Leafy spurge	1,800	1,800	1,800
National Biological Control			
Program	0	0	* 1,054
Sweetpotato whitefly	** 550	0	0
Cereal leaf beetle	0	250	407
Subtotal	\$5,149	\$4,599	\$5,804
Russian Wheat Aphid	2,400	2,400	2,400
Sweetpotato Whitefly ***	<u>0</u>	<u>3,000</u>	<u>3,558</u>
Total	<u>\$7,549</u>	<u>\$9,999</u>	<u>\$11,762</u>

## Footnotes:

\* Includes \$263,000 to support NBCI work to enhance existing biological control projects and work closely with the Interagency Biological Control Coordinating Committee.

\*\* Includes \$250,000 in contingency funds.

\*\*\* Separate line item in FY 1993 & FY 1994

## ]SCRAPIE[

Question. What are the funding levels for scrapie and from what categories does it come? Please show the 1992, 1993 and 1994 levels?

Answer. The information follows:

FUNDING CATEGORY	FY 1992	FY 1993	FY 1994
APPROPRIATION	\$955,000	\$846,000	\$3,469,000
CONTINGENCY FUNDS	\$2,072,000	\$2,072,000 <sup>1</sup>	-----
TOTAL AVAILABILITY	\$3,027,000	\$2,918,000	\$3,469,000

<sup>1</sup> The contingency amount shown for FY 1993 was carried over from FY 1992. The scrapie indemnity regulation became effective on January 7, 1993; therefore, no funds were obligated for indemnity under the voluntary certification program in FY 1992.

## ]NOXIOUS WEEDS[

Question. Please show the types of weeds and funding available for noxious weeds for 1992, 1993 and 1994.

Answer. The information follows:

Noxious Weeds Funding  
(dollars in thousands)

Project	FY 1992	FY 1993	FY 1994
Common Crupina	\$249	\$110	\$80
Goatsrue	170	125	125
Mimosa Pigra	0	32	32
Hydrilla	100	100	100
<u>Orobanche ramosa</u>	110	94	54
<u>Salsola vermiculata</u>	40	30	15
Inspection Activities	55	52	27
Survey Activities	<u>95</u>	<u>82</u>	<u>48</u>
Total	<u>\$819</u>	<u>\$625</u>	<u>\$481</u>

## QUESTIONS SUBMITTED BY SENATOR JOHNSTON

### ]BLACKBIRDS[

Question. One of the major and persistent problems facing Louisiana rice producers is damage to their crops from blackbirds. Since 1988, research funded by Federal, local and industry sources has been conducted on the use of DRC-2698 as a material to reduce population of spring roosting blackbirds. In 1989, a local needs (24C) registration was obtained from the Louisiana Department of Agriculture and Forestry to use DRC-1339 in Evangeline Parish at Millers Lake. This registration has since been expanded to one additional parish, with nine additional field locations tested.

The Denver Wildlife Research Center has been involved in developing laboratory data to support the field data gathered in the Louisiana field studies.

Have the preliminary results to date been favorable?

Answer. Preliminary data collected by the Denver Wildlife Research Center (DWRC) is very favorable for registering DRC-1339 with the Environmental Protection Agency (EPA) to use in Louisiana and elsewhere.

Question. Do the data support the use of DRC-1339 in other rice-producing areas?

Answer. Yes. An application for Federal registration has been submitted to the EPA. If approved, this would effectuate the availability of DRC-1339 for use in Louisiana and other rice producing areas.

Question. Would it be helpful to conduct further pilot operations on the use of DRC-1339 in the two parishes where field tests have been conducted? If so, what resources would be required to conduct such operations and for the Denver Center to evaluate these operations?

Answer. DWRC conducted research projects on DRC-1339 in Evangeline Parish in 1990 and 1991. The field test results continue to support favorable conclusions drawn from data collected in Evangeline Parish. However, results from field tests conducted



in Vermillion Parish in 1992 demonstrated that this method was not as effective there, probably because of habitat differences. Further pilot operations are not likely to change this basic conclusion about DRC-1339 in Vermillion Parish.

Question. What other USDA-sponsored research efforts are underway to test other means of controlling and mitigating blackbird damage to rice? What other means of control are now available to rice producers? Have these been effective in reducing damage to rice crops? In your opinion, does DRC-1339 hold out promise for further reducing these damages?

Answer. DWRC recently initiated research to develop chemical bird repellents that could be applied directly to rice seed and possibly to headed rice. If successful, this approach should provide a more consistent means of mitigating blackbird damage to rice. Also, the Center has initiated research efforts to identify, evaluate, and establish preferred winter roosting habitats as a means of concentrating blackbirds in accessible locations so that other management strategies can be employed. The use of DRC-1339 and other management approaches offers the potential to further reduce damage in these situations.

Other methods for controlling blackbird damage to rice which rice growers could consider include delaying rice planting until later in the spring after the blackbirds have migrated north and using shooting or propane cannons to frighten the birds from the fields. The effectiveness of the latter procedure is determined by the persistence of the grower and the birds.

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## QUESTIONS SUBMITTED BY SENATOR COCHRAN

### ]BOLL WEEVIL[

Question. Over the past two years, APHIS has implemented a pilot Geographical Information System in cooperation with the Agricultural Research Service (ARS) to analyze the feasibility of alternatives of expanding the boll weevil eradication program into the remaining cotton-growing areas of the cotton belt.

Are you pleased with the results of this program thus far and do you intend to continue this cooperative project with ARS until completion?

Answer. The Animal and Plant Health Inspection Service (APHIS) is pleased with the results obtained in developing the Geographical Information System (GIS). The GIS technology is currently used in Mississippi, and is being applied to portions of Florida and north Alabama. As the information compiled in the system increases, the GIS will help to determine the best configuration for future program increments and will provide a rationale for varying grower assessments in different parts of the States. The system will also include the locations of threatened and endangered species, which will help APHIS comply with federal laws that protect these species.

In Florida, APHIS is applying the system in an actual work unit setting within the eradication program. This will demonstrate if the daily operations of the program can be improved by using the GIS. In Mississippi, the GIS, in conjunction with a statewide

trapping program, provides information that is helpful in developing eradication plans. In addition, the system displays graphically the levels of infestation across the State on computer generated maps. In north Alabama, the GIS is being used to identify environmentally sensitive sites and their proximity to cotton production land.

Question. What level of funding is needed to continue this pilot project in fiscal year 1994?

Answer. APHIS would need \$500,000 to continue the GIS pilot project in Fiscal Year (FY) 1994.

Question. The fiscal year 1994 request includes a \$3.380 million decrease below the \$13.135 million FY 1993 level for the boll weevil control and eradication programs.

How much funding do you anticipate will be carried over from fiscal year 1993 and available for these programs in fiscal year 1994?

Answer. APHIS plans to carry over between \$1.0 to \$1.5 million from FY 1993 to FY 1994.

Question. Of the total funding available for fiscal year 1994, how much will be allocated to each of the three cooperative programs, i.e., the High Plains control program, and the Southeast and Southwest eradication programs?

Answer. The information follows:

#### FY 1994 BOLL WEEVIL PLANNED ALLOCATION BY PROGRAM

Southeast Program	\$8,605,000
Southwest Program	661,000
High Plains Program	<u>600,000</u>
Total	\$9,866,000

Question. The budget justification indicates that the southeast eradication program calls for eradication of the boll weevil from all cotton growing areas of the United States by the year 2015. Where do we stand in meeting this goal?

Answer. APHIS is on schedule to complete eradication of the boll weevil from all cotton growing areas in the United States by the year 2015. This projection is based on having 7 to 8 additional program increments of acres treated, with each increment taking about 3 years to complete.

Question. In fiscal year 1994, APHIS does not propose to expand the program beyond the eradication areas begun in FY 1993. Why?

Answer. In FY 1994, APHIS does not propose to expand the program beyond the eradication areas begun in FY 1993 because other areas do not have producer support and have not met the criteria to initiate eradication activities. Although five of the seven

remaining States have passed necessary legislation, they still need to develop a sound and affordable technical approach, conduct educational meetings, and have a positive referenda. These activities should occur during 1993 and 1994. Alabama is the exception, where with a positive referenda in 1993 the program might expand in the summer of 1994.

#### ]CATTLE TICK[

Question. The fiscal year 1994 request for APHIS includes a decrease of \$1.647 million for cattle tick eradication. The budget justification indicates that the Puerto Rico cattle tick eradication effort will be funded entirely from the FNS transfer in fiscal year 1994. It indicates that although APHIS will cease funding this effort, it will continue to administer the Food and Nutrition Service (FNS) reimbursement and manage the program, and will renew its cooperative agreement with Puerto Rico for the hiring of personnel.

Does the \$1.647 million represent the amount APHIS is spending, above the \$10.8 million transferred from the FNS for fiscal year 1993, for the Puerto Rico effort?

Answer. Yes, the \$1.647 million does represent the amount APHIS is estimating it will spend for the cattle tick eradication effort in Puerto Rico for FY 1993. These funds allow APHIS to provide Federal supervisory personnel, equipment, pesticides, gasoline, and vehicle maintenance for the Puerto Rico effort.

Question. The fiscal year 1994 request for FNS nutrition assistance for Puerto Rico deletes the current statutory language earmarking funds for Puerto Rico's cattle tick eradication project.

What level of funding does APHIS expect to be transferred from FNS to continue this effort in fiscal year 1994?

Answer. The FY 1994 request for FNS nutrition assistance for Puerto Rico deletes the current statutory language in the Food Stamp Program earmarking funds for Puerto Rico's cattle tick eradication project. APHIS expects a \$10.8 million reimbursement from FNS for Nutrition Assistance for Puerto Rico to continue this effort in FY 1994.

Question. What funds will be available to enable APHIS to administer and manage this program during fiscal year 1994 given the fact that APHIS' fiscal year 1994 request includes no funds for this purpose?

Answer. APHIS' ability to administer and manage the program is based on a \$10.8 million reimbursement from FNS in FY 1994.

PACKERS AND STOCKYARDS ADMINISTRATION  
QUESTIONS SUBMITTED BY SENATOR BUMPERS

PACKER CONCENTRATION STUDY

In fiscal year 1992, Congress appropriated \$500,000 to the Packers and Stockyards Administration to study concentration in the red meat packing industry.

Question. What is the status of the packer concentration study?

Answer. Six contracts were awarded in September 1992. Contractors' research methods have been reviewed and communications have occurred to translate research plans into specific data needs. Data collection plans for a large portion of the study have been approved by OMB and data collection will begin in June. Other data collection plans are being readied for OMB approval.

Question. What is the project budget for the study, how long will it take, and when will the report be available?

Answer. Most of the data will be collected in 1993. Contractors will conduct their analyses and prepare reports by September 30, 1994. The project is scheduled to be completed at the end of 1994 when the Packers and Stockyards Administration plans to complete its summary report. The Agency has redirected resources to increase its data collection efforts and conduct the study. GAO, in a 1992 report on the Agency, recommended that P&SA obtain additional information to define regional markets and monitor competitiveness in meat packing. Data collected for the packer concentration study are consistent with data needed to meet the goals identified in the GAO report. However, the concentration study addresses more questions more quickly than would otherwise have been possible. The study has shortened the time frame for methodology development and data collection, and entails some additional costs associated with using outside contractors. We estimate that the additional costs attributed to concentrating our efforts on the study during the period October 1992 through December 1994, are about \$850,000, of which \$500,000 was provided through an additional appropriation to the Agency in FY 1992.

Question. Please provide for the record a list of groups or universities you have contracted with for this study and the amount of their grant.

Answer. Contracts were awarded to Oklahoma State University (two contracts totaling \$203,592); Virginia Polytechnic Institute and State University (\$65,095); Texas A&M Research Foundation (\$109,555); Hayenga, Rhodes, Grimes and Lawrence, a partnership based in Ames, Iowa (\$29,900); and University of Nebraska-Lincoln (\$83,719).



## CONCLUSION OF HEARINGS

Senator BUMPERS. That concludes our regularly scheduled hearings of the subcommittee on the appropriations that we have jurisdiction over, so the subcommittee will recess and reconvene at the call of the Chair.

Thank you very much, gentlemen.

[Whereupon, at 3:46 p.m., Monday, May 24, the hearings were concluded and the subcommittee was recessed, to reconvene subject to the call of the Chair.]



## MATERIAL SUBMITTED BY AGENCIES NOT APPEARING FOR FORMAL HEARINGS

[CLERK'S NOTE.—The following agencies of the Department of Agriculture did not appear before the subcommittee this year. Chairman Bumpers requested these agencies to submit testimony in support of their fiscal year 1994 budget request. Those statements follow:]

### DEPARTMENT OF AGRICULTURE

#### AGRICULTURAL COOPERATIVE SERVICE

##### STATEMENT OF RANDALL E. TORGERSON, ADMINISTRATOR

Mr. Chairman and Members of the Committee, I appreciate the opportunity of appearing before you to present the issues and challenges facing the Agricultural Cooperative Service. First, I would like to introduce my associates, James E. Haskell, Deputy Administrator, Agricultural Cooperative Service; and John J. Neesen of the Budget and Accounting Division, Animal and Plant Health Inspection Service.

#### MISSION

The mission of Agricultural Cooperative Service is to promote understanding and use of the cooperative form of business as a viable option for agricultural producers and other rural residents.

We strive to help them effectively use cooperatives to improve their economic well-being and quality of life.

We serve cooperative members, directors, management, educational institutions, organizations, rural residents, and others with interests in the cooperative form of business.

Legislative authority for the Agency is found in the Cooperative Marketing Act of 1926 and the Agricultural Marketing Act of 1946. The legislation directs ACS to:

1. Carry out basic and applied research on various aspects of farmer-owned cooperatives.

2. Provide technical assistance to existing cooperatives on a variety of marketing, financial, organizational, and economic problems.

3. Provide assistance and technical support to newly emerging cooperative associations in their efforts to organize and establish sound business operations.

4. Collect and disseminate statistics on changes and trends in cooperative organizations, membership, structure, and operations.

5. Fulfill the responsibilities assigned by the Cooperative Marketing Act of 1926 " \* \* to promote the knowledge of cooperative principles and practices and to cooperate in promoting such knowledge with educational and marketing agencies, cooperative associations, and others."

6. Make special studies on cooperatives at home and abroad that aid in developing a knowledge base useful in the development and practice of cooperation.

#### ORGANIZATION

The Agency is organized into two staff areas and three divisions. Each division is divided into program areas along commodity or functional lines. Program area leaders are responsible for developing research agendas, overseeing major research and technical assistance efforts, and limited administrative duties.

The Cooperative Marketing Division (CMD) is composed of four commodity marketing program areas, Grains and Oilseeds; Dairy, Livestock, and Poultry; Fruits, Vegetables, and Specialty Crops; and International Trade. CMD provides both research and technical assistance.

The Cooperative Services Division (CSD) has a functional orientation with program areas in Finance; Legal, Policy, and Taxation; Education and Member Relations; Strategic Management and Planning; and Farm Supplies and Services. CSD is research oriented, but also provides technical assistance.

The Cooperative Development Division (CDD) is charged with providing technical assistance to emerging or developing cooperatives and producer groups desiring to form new cooperatives. CDD has two program areas: Feasibility and Development and Field Operations. The three field offices in Columbus, OH; Raleigh, NC; and Hilo, HI, are the responsibility of the Field Operations Program Area. The Division's work is primarily oriented to technical assistance.

The Office of the Administrator is composed of the Administrative staff and two key staff areas. The Information Services Staff (ISS) and Statistics and Technical Services Staff (STSS) provide agency-wide technical support services.

ISS produces research and educational publications in addition to the Agency's monthly magazine, *Farmer Cooperatives*. STSS is responsible for the annual collection, entry, verification, and maintenance of cooperative statistical databases and provides data processing support to Agency researchers.

Not fully recognized is the rural development implications of these activities—and in particular the establishment of cooperatives. Cooperatives generate jobs and income in their own right, and that income is generated and expended locally. Their establishment (and presence) have clear development advantages for areas where market failure problems exist, and where broad distribution of user-benefits is critical. These conditions overlap closely, and in some ways even define the needs of areas with major developmental deficits. Through its manifold missions and practices, ACS helps improve understanding of the practical concepts of mutual self-help business activity and the operations of cooperatives, thereby improving member economic returns and self empowerment, organizational empowerment, and ultimately rural development.

#### SIZE, LOCATION, AND FIELD STRUCTURE

Agricultural Cooperative Service (ACS) is an independent Agency of the United States Department of Agriculture, reporting to the Assistant Secretary for Marketing and Inspection Services. The Agency is headquartered in Washington, DC, and has one-person field offices located in Columbus, OH; Raleigh, NC; and Hilo, HI. The Agency has a staff year ceiling of 69 and is currently staffed at that level.

#### HOW THE AGENCY IS DOING WITH 1993 FUNDS

Agricultural Cooperative Service is funded almost entirely through appropriations. A small amount is received from user fees on Agency publications. Appropriations for fiscal year 1993 is \$5,640,000, the same amount as for fiscal year 1992. With increased pay costs (over 72 percent of the Agency's appropriations are utilized for payroll purposes), and a level budget, we are closely managing the controllables such as travel, printing and equipment purchases. Approximately \$200,000 will be available for cooperative research agreements this year.

#### CURRENT ACTIVITIES

The Agricultural Cooperative Service assists producers in developing efficient and effective cooperatives to overcome the increasing disparity of marketing power with food firms with whom they deal. Significant adjustments are occurring of necessity among the cooperative businesses owned by farmers and ranchers. It is our role to conduct research and to work with these producer-owned businesses as they adapt their operations to dynamic changes occurring in the food system. Current research projects are addressing such managerial issues as finance, strategic planning, member governance, education, and cooperative taxation. Other research examines the role of cooperatives in the dairy industry, fruits and vegetables marketing and processing, grain and livestock marketing, farm supply procurement and sales as well as international trade opportunities and challenges.

ACS staff participated in 123 technical assistance projects involving 131 cooperatives and producer groups in fiscal year 1992. The staff addressed 62 new technical assistance requests in 1992, a 10 year high. Projects were carried out on behalf of 49 established cooperatives, and 80 projects involved emerging and-developing cooperatives or producer groups. Eight producer groups were incorporated as new cooperatives in 1992. Requests for technical assistance continue to increase as producer groups and established cooperatives seek help in solving their diverse economic problems.



As the primary source of information on cooperatives for cooperative organizations, the educational system, and the general public, ACS maintains an inventory of nearly 150 research and education titles. In fiscal year 1992, the Agency responded to over 1,000 requests for information, distributing more than 67,000 publications. Farmer Cooperatives, a major tool in the timely dissemination of information about cooperatives, is the only national magazine dedicated to agricultural cooperatives.

Materials distribution and cooperative educational requests are not limited to the U.S. For example, the Agency hosted foreign visitors from 21 countries (a majority of them from Eastern Europe and the NIS) this past year, briefing them on USDA programs and policies as well as various aspects of U.S. agricultural cooperation.

#### PROBLEMS OR ISSUES

As farmers look through the remainder of the 1990's and beyond they see a world and a marketplace that is rapidly changing. It is a world shaped by increased global influence on U.S. markets, growth of larger, more complex business organizations, greater immediacy of environmental and nutritional concerns, and the budgetary realities forcing adjustments to traditional farm programs. It is a world of increased opportunities for farmers, but a world fraught with risk.

Accepting risks is nothing new to farmers; they are perhaps the biggest risk takers of all. But what has characterized farmers is their ability to use all the tools available to make these risks manageable. In the future, as in the past, one of the most important and significant of these tools will be the cooperative business organization. Cooperatives are one of the tools farmers use to take control of their own economic lives.

Cooperatives are private investments by farmers in their own futures. It is in support of this private sector approach that the Federal Government has historically made its investment in the promotion of knowledge and use of cooperatives. The Federal Government has attempted to ensure that all farmers and rural residents are able to avail themselves of this critical tool for solving their own problems and meeting the future challenges of the marketplace.

The magnitude of changes inevitably call forth the use of institutional mechanisms, like state and federal marketing orders, that enable farmers and ranchers to cooperatively market their products in an orderly fashion. Such mechanisms are necessary to help share the costs of group action from which other market channel participants benefit. The development of new self-help mechanisms and rules is necessary as new forms of contracting of identity preserved products are used in both crops and livestock industries. Our role is to help identify the organizational approaches and market strategy that addresses producer needs and assures a continuation of public goods that cooperative marketing offers.

Another challenge can be viewed in the context of the rural community as a whole. It is found in the general turn down of the rural economy in the mid-1980s which left many main street businesses in small towns boarded up and community infrastructure greatly weakened. This development has given more exposure to the cooperative form of business and the possibilities it represents as a tool for rural development. The public goods opportunities for cooperatives have therefore expanded as rural residents look to themselves for locally generated solutions and rely on local resources to generate local options.

Through its programs of "helping others help themselves," the Agricultural Cooperative Service has been the point Agency in the Federal Government's effort to promote and stimulate a strong cooperative infrastructure.

Over the past two decades, cooperative education activities have eroded at all levels. At ACS we are seeking ways to counter this increasingly worrisome trend. We have just completed a national education task force study that identifies measures that ACS and other cooperative educators can take to address deficiencies in cooperative education. These actions include development of audience specific educational materials, research on the performance of existing educational programs, increased education of core cooperative educators, and improvement of national level coordination and communication.

Of particular importance is the recommendation that a better job needs to be done of "educating the educators" and those at the state and local level who work closely with farmers and other rural residents. These people need to understand enough about cooperatives to recognize when a cooperative approach is needed and to get farmers started on the right track.

Economic research on issues and problems facing cooperatives has been done, over the years, by ACS and university researchers. The results of this broad and diversified research effort have been directly applied by members in their cooperatives,

thereby making the cooperative system more effective, efficient, and responsive to member needs and the demands of the marketplace. Benefits have accrued to farmers, rural residents, and consumers alike.

The tandem effort of ACS and the land grant university system(s) has been highly effective over the years. However, we are seeing cooperative-related research disappearing at many of our universities and with it the teaching and development of students possessing a strong base of knowledge in cooperatives. This emphasizes the importance of ACS's continued program of research and educational material development at the federal level, as well as collaboration on research initiatives.

#### BUDGET REQUEST

The fiscal year 1994 budget request for the Agricultural Cooperative Service is \$5,733,000. The request shifts \$450,000 from appropriations to user fees for technical assistance provided to larger cooperatives with a positive earnings record in recent years.

Other changes include an increase of \$39,000 for non-salary inflation; an increase of \$94,000 for pay cost adjustments; and a decrease of \$40,000 for administrative efficiency.

The Agency will continue its research and technical assistance programs to existing cooperatives and our cooperative development activities including field operations in Hawaii, Ohio, and North Carolina.

Mr. Chairman, I thank you for the opportunity to present this statement. We will be glad to respond to any questions.

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#### ECONOMIC RESEARCH SERVICE

##### STATEMENT OF JOHN E. LEE, JR., ADMINISTRATOR

Mr. Chairman and members of the committee, I am pleased to appear before you to describe the mission, programs, and activities of the Economic Research Service.

#### MISSION

The mission of the Economic Research Service is to provide policymakers, farmers, and others the economic information they need to make decisions that improve the performance of agriculture and the rural economy. We do this with a multifaceted program that includes short-term analyses in response to request from the Secretary of Agriculture and others, analysis of situation and outlook for agricultural markets, analysis and publication of ongoing indicators of performance and well-being of agriculture and the people associated with it, and longer term, problem-oriented research on issues high on the public agenda.

ERS is unique. There is no other research organization that has responsibility for addressing comprehensive economic problems facing agriculture, the food industry, natural resources, and rural America from a national perspective. Together with our sister agency, the National Agricultural Statistics Service, we provide economic information on which the Nation's food and agricultural system operates.

Our small staff is stretched thin across a broad agenda of issues and services that are critical to national policymaking, management of Federal programs, and the ongoing operation of America's food, agricultural, and rural businesses. While the influence of what ERS does is pervasive, the agency is not highly visible to the public.

#### ORGANIZATION AND STAFFING

ERS currently has 669 full-time employees organized into four program divisions—agriculture and rural economy (134), agriculture and trade analysis (143), commodity economics (177), and resources and technology (124)—a data services center (60) and my office (31), which includes a number of miscellaneous agencywide services such as facilities management, library, EEO counselor, international programs staff, information resource management staff, program planning and evaluation staff, and data and staff analysis coordinators. Of the 669 full-time employees, 459 are economists (mostly agricultural economists), 35 are other social scientists, and the remainder are in various support occupations, including 55 computer specialists, 49 clerks, and 42 secretaries/office managers. ERS also has 40 part-time employees, some in most of the above capacities. The ERS appropriation also funds staff in other USDA agencies: 104 full-time and 4 part-time in the Economics Management Staff (which provides personnel, procurement, budget, and publication support to ERS), 5 full-time in the Office of Energy, and 4 full-time in the Economic

Analysis Staff. All ERS staff and the publications division of the Economics Management Staff work at 1301 New York Avenue NW, Washington, D.C., in leased space.

#### FISCAL YEAR 1993 BUDGET

ERS's fiscal year 1993 appropriation is \$58.9 million, unchanged from fiscal year 1992. In order to absorb the increased salary costs and inflation in nonsalary expenditures, ERS has had to reduce its staff. We are, nevertheless, proceeding with the high priority programs that we are committed to carry out in fiscal year 1993, and attempting to minimize the adverse affect of absorbing the increased costs of doing business by increasing the efficiency of the remaining staff, principally through increased automation of data bases and work flow processes.

#### FISCAL YEAR 1994 BUDGET

ERS's fiscal year 1994 budget is \$51.5 million, \$7.5 million less than the fiscal year 1993 appropriation, comprised of four proposed decrease items and two increase items.

The major decrease proposal is for an \$8.4 million reduction in economic analysis and research, which represents a 14-percent downsizing of ERS. ERS plans to save these funds by consolidating its resources on issues most important to USDA in the 1990's, reducing lower priority areas, and reducing data purchases and support services.

We are also requesting two inflation-related increases of \$405,000 for a projected 2.7-percent increase in nonsalary costs and \$979,000 for part of the fiscal year 1993 pay raise.

#### PROGRAMS

##### ERS DEVELOPS INFORMATION ON CURRENT AND FUTURE MARKET CONDITIONS

ERS's so-called "situation and outlook" program is designed to provide intelligence and analysis of current conditions and both near- and long-term developments in food and agricultural markets. This analysis explains what the market situation is, why the markets are what they are, and what the prospects are for the future. More important than our forecasts are our explanations of the supply and demand forces that drive the outlook, so that users of the ERS work are in a better position to apply their own judgment about potential market developments.

The use of ERS situation and outlook analyses is pervasive:

- The Department uses ERS situation and outlook analyses to monitor and adjust the operation of farm programs. For example, the setting of commodity loan rates and Acreage Reduction Program percentages begins with ERS analyses of crop prospects for the year in question.
- In every State and nearly every county of the United States, extension agents use the ERS situation and outlook reports each month, with adjustments to reflect State and local conditions to brief farmers and agribusiness people. The availability of ERS's commodity outlook reports to State extension specialists is now more critical than ever since most States have been forced by their own budget cutbacks to eliminate their own analysts.
- Many farm magazines have pages that feature analysis of prospects for individual commodities. Almost always, the underlying analyses for those pages come from ERS publications.
- Farm and commodity organizations are heavily dependent on ERS's analysis of production, consumption, price, and export prospects.

The ERS situation and outlook program is unique in another way: the intelligence and analyses are integrated into a comprehensive view of the agricultural sector—from wheat prices to farm income to program participation—ensuring consistency across the different subject areas.

ERS also has the lead role in USDA's effort to provide longer term analysis of agricultural prospects and trends. ERS coordinates most of the analysis and conducts underlying research on long-term factors affecting U.S. and global agriculture. Our data and analysis are used as the Department's benchmark for measuring the impact of various policy, financial, technological, and resource-use scenarios. For example, the many scenarios analyzed during the 1990 Farm Bill debates and as part of the GATT and NAFTA negotiations were done by ERS staff using the ERS baseline. The baseline also provides the basis for the Department's 5-year budget projections, for evaluating loan applications in the Farmers Home Administration, and for many other policy purposes.



Each year, ERS publishes approximately 150 situation and outlook reports on nearly 30 different topics. These include costs of production, inputs, international (foreign countries and global), domestic crops, livestock, poultry, specialty products, productivity, marketing margins, farm income, and macroeconomic data. And a new effort is underway to develop an annual "State of the Agricultural Environment" report. Paid subscriptions and reprints account for about 220,000 reports annually.

#### ERS PROVIDES SERVICE TO OTHER AGENCIES

Our analysts are continually participating in and contributing to a significant number of departmental priority activities or simply providing a service to other agencies. Last year, for example, ERS was involved in: developing profitable farm practices that meet the goals of the Water Quality Initiative; conducting a large, multiyear study for the Federal Grain Inspection Service to determine the costs and benefits of improving the quality of grains and oilseeds for export; doing a regulatory impact analysis of food labeling proposals; providing analytical backup to implementation of the Endangered Species Act; preparing a series of reports on ethanol; doing several research projects for the Agricultural Stabilization and Conservation Service on commodity program operations; and analyzing dozens of regulatory proposals ranging from labeling to food inspection. We also produce the estimates used in setting beef import quotas; and we estimate how much commercial butter and cheese sales will be displaced by the Food and Nutrition Service's food donation programs.

ERS data and analyses are heavily used by the Congressional Research Service, General Accounting Office, and Office of Technology Assessment as they respond to congressional requests.

#### ERS PROVIDES ESSENTIAL INFORMATION FOR POLICYMAKING AND PROGRAM MANAGEMENT

ERS provides the Secretary of Agriculture and other policy officials with accurate and timely information and analysis as inputs to Departmental decisionmaking. The Department has a broadening array of responsibilities covering food assistance, nutrition, food safety, international trade, and rural development, as well as continuing to operate traditional farm programs and provide market information. ERS has the unique responsibility of fulfilling the Department's information needs in all of these areas. ERS has the capacity to develop basic information and assess impacts on farmers, agribusiness, consumers, rural people, the environment, and the overall economy in a comprehensive, objective, and timely manner. For example:

*Commodity Market Data and Analysis.*—ERS provides data collection and analysis on supply, demand, and price of all major farm commodities. This information is used to develop the official Departmental outlook estimates that underlie policy assessment. These activities also provide a "level playing field" for farmers and other market participants by ensuring that basic information is available to all.

*Food Safety.*—ERS supports FSIS and APHIS rule making with economic analysis of benefits and costs and distributions of effects. It also assists in developing research information to respond to the public's concern about chemical and microbial contamination. ERS assistance ranges from estimating the economic impact of changes in poultry inspection to analyzing the impacts and likely effectiveness of the Secretary's new food safety strategy. ERS is also collaborating with the National Agricultural Statistics Service and the Agricultural Marketing Service to collect information on the use of agrochemicals in food production and marketing, and is responsible for doing followup cost/benefit analyses.

*Domestic Food Assistance and Nutrition.*—ERS played an important role, working with the Food Safety and Inspection Service, in conducting the cost/benefit analysis of nutrition labeling. ERS is now heavily involved in evaluating alternative nutrition education programs. ERS is the lead agency for major parts of the new USDA 10-year Nutrition Monitoring Plan, and is working closely with the Human Nutrition Information Service to improve food survey data used to support the Department's nutrition and food assistance programs. The agency also provides analyses for the Food and Nutrition Service of longer term program options such as food stamp cash-out and electronic benefit transfers.

*Rural Development.*—The Secretary has statutory authority to lead Federal rural development efforts. This requires him to collaborate with many other agencies whose programs affect the well-being of rural people and viability of rural communities. The capacity to generate research information to help the Secretary shape Federal rural development efforts exists mainly within ERS. That capacity has made ERS research information and staff support a critical resource in USDA-led Federal initiatives; for example, formation and funding of state rural development



councils, and establishment of a strategy development program in the Rural Development Administration. Moreover, ERS plays a key role for the Secretary in assuring that initiatives undertaken by others—the National Governor's Association; General Accounting Office, Office of Technology Assessment, and the Congressional Research Service; private foundations; and international organizations—have access to a factual assessment of current rural conditions and a research-based analysis of future opportunities and challenges.

*Water Quality and Pesticide Use.*—ERS plays a critical role in USDA water quality efforts, performing analyses and evaluating policy options to weigh the potential costs and benefits to farmers and other citizens. ERS cooperates with National Agricultural Statistics Service to collect national data on current levels and trends in chemical use. These survey data are the only reliable source of information to assist the Department in assessing the impact of chemicals on the Nation's water quality and strategies to improve water quality. Similarly, ERS and National Agricultural Statistics Service data, and ERS research capacity, underpin USDA assessments of alternative pest control strategies—especially the likely effects on crop yields, farmers' costs and returns, and food quality and price.

*Trade Strategies—GATT and NAFTA.*—ERS is the only source in the U.S. Government of in-depth agricultural trade policy and economic information on foreign countries. As a result, ERS staff have played a key role in providing analyses of strategic options to U.S. officials involved in trade negotiations. Many of the positions adopted by the United States were recommended by USDA, and were selected because of the ERS analyses of potential impacts. As a member of USDA's NAFTA Task Force, ERS analyzed the effects of alternative trade policy provisions on 31 commodities, assessing the costs and benefits for States and regions, the environment, farm workers, food safety, and farm income. ERS was the principal contributor to several major GATT and NAFTA analyses released by USDA during 1991 and 1992. We expect a continued high level of activity as the negotiations continue.

*Food Aid and Development Assistance.*—ERS analyses of the agricultural and food situation in the former U.S.S.R. helped the U.S. Government focus U.S. assistance on facilitating basic reform in institutions and legal structures, not just food aid. These analyses formed the basis for coordinated assistance by the industrial nations, meeting real aid needs, while not blocking fundamental restructuring in agriculture and other sectors. Similarly, ERS is the main source of information on the agricultural supply and demand situation for the Africa Bureau of the U.S. Agency for International Development, which uses the ERS information to provide benchmarks required by the Congress for the Development Fund for Africa. In cases of serious drought and famine, ERS is the agency turned to for reliable information about the extent and likely scale of food aid needs.

This is only a sample of the policy issues where ERS plays a key role in informing departmental decisionmaking.

#### ERS-FUNDED SURVEYS PROVIDE IMPORTANT DATA NOT AVAILABLE ELSEWHERE

ERS funds surveys each year on farm costs and returns, farmland values, natural resources, and water quality. The surveys are conducted in response to mandates and information requests from different sectors of the government. For example, the Farm Costs and Returns Survey is congressionally mandated and provides data for estimating farm income, costs of production of major commodities, and the financial condition of farm operators. The Post-Farmgate Pesticide and Chemical Use Survey and Water Quality Survey provide essential data for estimating the impacts of chemical use and regulations on agriculture. The Land Values Survey provides the only data on prices of farmland. By providing an unbiased and highly regarded pool of information, the various surveys further the quality of data available not only to ERS analysts but agricultural producers, public policymakers, university researchers, agribusiness decisionmakers, and associations concerned with rural and environmental issues.

#### ERS DEVELOPS INDICATORS THAT PROVIDE A COMPREHENSIVE PICTURE OF AGRICULTURAL AND RURAL CONDITIONS

ERS produces a host of economic and social indicators on such diverse topics as agricultural land values, the costs of production for major crop and livestock enterprises, nonmetro earnings, per-capita food expenditures, and world trade in agricultural commodities. In the aggregate, these indicators describe the status and major trends over time of the food and agricultural system, natural resources, and the rural economy.

ERS collects a small amount of the data directly; other data are purchased or acquired from other sources, primarily the National Agricultural Statistics Service.

Even for data from other sources, ERS adds considerable value to the data through interpreting them, correcting them, and putting them in publications and electronic data bases that make them more accessible to public and private decisionmakers.

Major users of the indicators are Congress (which has mandated many of the indicators) and the Administration, which uses the data to help formulate, administer, implement, and evaluate agricultural and rural programs and policies. However, the indicators are also used by a wide range of nongovernmental sources, including agricultural and food producers, university researchers, rural bankers, and agribusiness decisionmakers. By contributing to a better public understanding of ongoing events in the agricultural sector and rural areas, the indicators serve the interests of domestic and global producers and consumers alike. The indicators constitute much of what people think they know about U.S. agriculture and the rural economy.

#### ERS'S RESEARCH PROGRAM SERVES AS THE ANALYTICAL FOUNDATION FOR ALL OTHER PROGRAM ACTIVITIES

The ERS research program generates the knowledge base for all the other functions—staff analysis, economic and social indicators, and situation and outlook. The research, which covers a broad range of themes, is designed to gain a better understanding of the conditions of different economies, market systems, and sectors, and the underlying relationships between policies and events and the resulting outcomes.

For example, the agricultural sector is affected by trade, environmental, and macroeconomic policies. Agricultural producers in the United States use pesticides in the production of commodities. If pesticide use is restricted to protect the environment, (i.e., water quality, human and/or wildlife safety), then the producer's cost structure changes. The mix of commodities and how they are produced, the competitiveness of U.S. commodities in international markets, farm income, consumer prices, Federal outlays, and rural well-being may or may not be affected, but policymakers need to know whichever is the case. Similarly, agricultural and trade policies have an impact on the environment and the rural community.

ERS attempts to use research produced by universities and other organizations, and great care is taken to avoid duplication of research done by others.

#### CLOSING REMARKS

I appreciate the support that this Committee has given ERS and look forward to continue working with you and your staffs to ensure that ERS is addressing the highest priority issues and making the best possible use of the funds entrusted to it, through you, by the U.S. taxpayer. All members of this Committee will be provided key ERS publications and other available information. Please do not hesitate to call on us for information and assistance.

Thank you. I will be happy to respond to your questions.

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#### FEDERAL GRAIN INSPECTION SERVICE

##### STATEMENT OF DAVID R. GALLIART, ACTING ADMINISTRATOR

Mr. Chairman and Members of the Committee: I appreciate this opportunity to acquaint you with the responsibilities and activities of the Federal Grain Inspection Service (FGIS).

#### INTRODUCTION TO FGIS

FGIS was created by Congress under the U.S. Grain Standards Act of 1976 (the Act) to manage the national grain inspection and to institute a national grain weighing program. The goal of creating a single Federal grain inspection entity was to ensure the development and maintenance of uniform U.S. standards for grain, to develop and implement inspection and weighing procedures for grain in domestic and export trade, and to facilitate grain marketing.

The Agency's responsibilities lie in three main areas: (1) Establishing and maintaining official U.S. grain standards for barley, canola, corn, flaxseed, oats, rye, sorghum, soybeans, sunflower seed, triticale, wheat, and mixed grain; (2) Inspecting and weighing grain and related products for export trade, and making such services available, upon request, for domestic trade; and (3) Supervising the official grain inspection and weighing system.

## PROVISION OF SERVICES

The official grain inspection and weighing system is a network of FGIS field offices, and Federal, State, and private agencies that are authorized by FGIS to provide official grain inspection and weighing services. There are approximately 2,900 inspectors in all, of which 489 are FGIS employees.

Under the Act, grain exported from the United States must be officially weighed and inspected, unless it is exported by train or truck to Canada or Mexico. Essentially, it is FGIS' responsibility to inspect and weigh grain for the purpose of certifying that grain exported from the United States meets contract specifications.

In addition, all corn exported from the United States must be tested for aflatoxin prior to shipment, unless the contract stipulates that testing is not required. These mandatory official inspection and weighing services are provided by FGIS on a fee basis at 57 export elevators, and by 8 delegated States at an additional 22 export elevators.

Domestic inspection and weighing services are provided by 72 designated agencies that employ personnel licensed by FGIS to provide such services. The official inspection and weighing of U.S. grain in domestic commerce are performed upon request on a fee basis.

Under the Agricultural Marketing Act of 1946 (AMA), FGIS provides inspection and standardization services related to rice, pulses, and processed grain products such as flour and corn meal, and other agricultural commodities. Services under the AMA are performed upon request, on a fee basis, for both domestic and export shipments, either by FGIS employees or individual contractors, or through cooperative agreements with States.

## THE INTEGRITY OF THE SYSTEM

FGIS maintains an extensive compliance program to ensure that the Act, the AMA, and regulations, procedures, and policies issued under the statutes are implemented properly and uniformly.

A management control program allows FGIS to effectively evaluate procedural conformance and operational efficiency nationwide. Compliance reviews evaluate management effectiveness and procedural compliance of FGIS field office circuits and official agencies.

## BUDGET

FGIS is predominantly a user-fee funded operation. The total Agency budget request for fiscal year 1994 is \$54.4 million operating authority. Of this \$54.4 million, \$4.7 million is requested for existing appropriated activities. The fiscal year 1994 appropriated request includes funding only for compliance activities, which ensure the integrity of the official system.

Standardization activities, estimated to be \$6,882,000, in fiscal year 1994, will be covered by shifting these costs from appropriated to user fee funding. These activities should be paid for by those who benefit from them, primarily the grain industry. Standardization activities involve establishing and maintaining the official U.S. grain standards, developing and implementing standard methods and procedures, maintaining a quality control program covering all aspects of grading and inspection, and approving equipment for the official inspection and weighing of grain.

Inspection and weighing activities, funded by user fees in fiscal year 1993, are estimated to be \$42.8 million in fiscal year 1994.

In fiscal year 1993, the total Agency budget authorization is \$54.2 million, of which \$11.4 million is appropriated funding. User fees currently account for over 76 percent of our funding. In fiscal year 1993, standardization and compliance activities are funded with appropriations.

Because of our reliance on user fees, decreases in the volume of grain exported from the United States directly affect our revenues. Between fiscal years 1989 to 1991, U.S. agricultural exports dropped from 117.1 to 97.1 million metric tons (MMT). In 1992, exports increased slightly to 105.7 MMT.

Currently, the number of official inspections performed decreased from 2.8 million in fiscal year 1988 to 2.4 million in 1992.

During that same time period, user-fee revenue declined by \$5.5 million (from \$34.5 to \$29.0 million). Economic conditions clearly dictated the need for an efficient and cost-effective national system. In response, the Agency has cut user-fee funded obligations by \$5.5 million (from \$34.8 to \$29.3 million). We accomplished this reduction by consolidating field offices and suboffices; abolishing several headquarters positions; strictly limiting monies spent on travel, training, and equipment purchases; and, trimming our staffing levels from 975 in 1982 to 752 in 1990 to 649



today. Fee increases have been very limited throughout these years. These stringent cost controls continue into fiscal year 1993.

At the end of this fiscal year, Public Law 100-518, enacted October 24, 1988, which authorized FGIS programs, will expire. FGIS has recommended legislation to reauthorize the sunset provisions of the statute to continue the Agency's programs through September 30, 1998.

#### PROGRAMS AND INITIATIVES

FGIS remains committed to a "customer-first" orientation. We continue to develop and implement programs to better meet the needs of the U.S. grain marketing system. The Official Commercial Inspection Service is one such program.

This new level of service allows users to tailor official grain inspection services to fit individual needs. Applicants for this service select specific features from other "complete" services, or modify the current inspection procedures, without sacrificing inspection quality.

The new service has served dual purposes. It has made the quality of the official system available to those who previously found official inspection services too costly or time-consuming. And, it has generated new business for official inspection agencies.

The Agency currently is addressing a variety of issues related to our mission and the marketing of U.S. grain. Our efforts in the areas of objective testing technology, food safety, and standardizing the official system are fundamental and ongoing.

#### *Objective Testing*

FGIS is continuing to develop and implement improved and more objective testing methods for the official grain inspection system. For example, FGIS presently is implementing a rapid procedure to determine protein in wheat using near-infrared transmittance instruments (NIRT). We believe that the official inspection system and industry will benefit from this change in protein testing technology. The NIRT saves time, lessens errors caused by operator influence, and improves the reproducibility of protein measurement.

FGIS also is developing a single kernel hardness tester to objectively classify wheat, and to provide quality information that will allow the marketplace to better assess the value of wheat.

Furthermore, we are pursuing objective technologies that measure sprout damage and enzyme activity in wheat, determine odor in grain, and insect infestation.

#### *Food Safety*

Food safety remains a priority. Mycotoxins—which are naturally occurring toxins produced by molds that may be present in grain and oilseeds—continue to be of interest to both foreign and domestic customers. Reports of a delayed corn harvest in the upper Midwest this year prompted renewed interest in mycotoxins on the part of consumers and the grain industry.

In response to these concerns, FGIS is investigating quick tests that measure various mycotoxins in grain, including vomitoxin and fumonisin. FGIS already has approved and implemented test kits that safely and rapidly measure aflatoxin.

FGIS' efforts in the food safety arena also include the recent implementation of a program to monitor pesticide residues in domestic and export wheat samples. A similar program that will monitor corn for residues is being developed.

#### *Standardizing the Official System*

In recent years, FGIS has increased the uniformity of the grain inspection and weighing system by strengthening its quality control program. Today, FGIS' extensive monitoring and checktesting programs are formalized into the official procedures for grain inspectors.

FGIS currently is working with the National Institute of Standards and Technology and the National Conference on Weights and Measures to further improve the uniformity of the system by developing a standardized equipment evaluation program for grain moisture meters and near infrared testing equipment.

FGIS also continues to work with the grain industry and other Government entities to develop an objective wheat classification system.

#### CONCLUSION

Since its inception, FGIS has played a crucial role in the marketing of U.S. grain both in domestic and international markets. We remain committed to strengthening and improving the official grain inspection and weighing system and to provide to our many customers services that are second to none. Thank you.



## NATIONAL AGRICULTURAL LIBRARY

## STATEMENT OF JOSEPH H. HOWARD, DIRECTOR

Mr. Chairman and members of the Subcommittee, it is a pleasure to have this opportunity to explain the proposed fiscal year 1994 budget for the National Agricultural Library (NAL).

I'd like to begin with a little background on NAL.

With the Library of Congress and the National Library of Medicine, NAL is one of three national libraries of the United States.

In simplest terms, NAL's role is to gather, maintain and make accessible the agricultural information and knowledge that is necessary to assure that the United States remains the most productive agricultural nation in the world.

NAL provides reference and information assistance to federal, state and local government scientists, researchers and officials; professors, researchers and students at universities and colleges; private scientific and agricultural organizations; business leaders; the news media; the general public and foreign government agencies.

We are an agency of the U.S. Department of Agriculture and also serve as the departmental library serving USDA employees worldwide. As the Director, I report to the USDA Assistant Secretary for Science and Education. I am supported by associate directors for automation, public services and technical services. There are approximately 200 people working at the Library, including librarians, computer specialists, information specialists, and support staff. NAL is located on the grounds of the Beltsville Agricultural Research Center in Beltsville, Maryland.

The NAL collection numbers over 2 million volumes. We also receive about 26,000 periodicals each year. The NAL collection is contained on 48 miles of bookshelves located on the 14 floors of the NAL building. The collection dates back to the 17th century and includes items in 75 different languages. In addition to books and periodicals, the NAL collection contains photographs, slides, film, videotape, theses, patents, software and artifacts. The NAL collection grows at a rate of several thousand items a year and we are fast approaching a point where we will have no more space. We are currently working to develop plans to deal with this problem.

NAL is the coordinator and primary resource for a nationwide network of state land-grant university libraries and USDA field libraries. These libraries, with NAL, form a document delivery service that allows interlibrary loan of agricultural materials nationwide. NAL also works with land-grant libraries on programs to improve access to and maintenance of the nation's agricultural knowledge. This is being done more and more through the application of electronic technologies such as compact discs, laser discs and text digitizing. I'll address this later in my remarks. Access to the NAL collection is provided through the Library's bibliographic database AGRICOLA (AGRICultural OnLine Access), the heart of NAL activities. AGRICOLA is available online or on compact disc and contains 3 million citations to agricultural literature. It is known and respected by agricultural researchers worldwide.

The 11 information centers maintained by NAL are another important aspect of the Library's operations. These centers provide customized information services in areas of particular concern to the world agricultural community. Subjects covered are agricultural trade and marketing, alternative farming systems, animal welfare, aquaculture, biotechnology, food and nutrition, plant genome, rural development, technology transfer, water quality and youth development.

This is just a brief overview of NAL and our activities. The nation's agricultural community looks to the Library as a leader in developing techniques and programs to improve the flow of agricultural information to those who depend upon it. NAL makes optimum use of its yearly budget in meeting this important responsibility.

For fiscal year 1994, NAL is requesting a total budget of \$17,915,000, an increase of \$200,000 above the current funding level for NAL. Within the total, we propose reductions in administrative costs in line with the President's Executive Order to promote greater efficiency in program delivery. We will meet this through the reassignment of certain management responsibilities, reductions in supply and furniture purchases and savings in utility and travel costs. We also propose the elimination of the grant to the Leflar School of Law. These savings, in addition to the proposed increase of \$200,000, will allow NAL to address critical priorities to continue and improve our basic library services.

First, we plan to devote \$462,000 to journal subscriptions and document delivery services to meet the escalating costs for library materials, services and equipment. These escalating costs are continuing to erode NAL's ability to provide basic agricultural information services.

Presently, about 80 percent of NAL's library materials budget is used for subscriptions to agricultural and scientific journals. NAL users rely on these publications

to obtain results from the most current scientific research. The cost for journal subscriptions is increasing at an average rate of 15 percent annually. This figure is even higher for certain journals covering subjects particularly important to NAL users. For instance, veterinary medicine journals have gone up an average of 60 percent and animal science journals 57 percent.

In addition to reinstating lapsed subscriptions, the increase would also allow NAL to maintain current subscriptions, obtain subscriptions to new electronic journals and software products, and acquire new titles on subjects directly related to USDA research efforts.

This increase of \$462,000 would also enable NAL to meet the rising costs of document delivery services. In fiscal year 1994, the cost of document delivery services, including the regional document delivery system and interlibrary loan activities, will increase by approximately 15 percent.

Other increases NAL is seeking are an increase of \$241,000 to cover a 2.7 percent increase in non-salary costs, and a \$201,000 increase for the annualization of the fiscal year 1993 pay raise.

This concludes my remarks related to specific items in the NAL budget request. Before I close I would like to relate a few examples of NAL activities that illustrate the importance of the Library to both U.S. agriculture and to the American people.

Following the recent outbreak of food poisoning, in the northwest United States, caused by the *E. coli* bacteria, USDA's Food Safety and Inspection Service, which was spearheading the federal response, contacted NAL requesting as much information as possible on the bacteria. In minutes, NAL staff had a comprehensive listing of *E. coli* literature and were providing copies of listed materials. Within hours, copies of 65 articles and books had been provided. NAL followed up on this activity by producing a complete bibliography of *E. coli* materials in the collection and providing copies nationwide, free of charge. NAL routinely responds to such needs, not only from USDA agencies, but from throughout the world's agricultural community. This type of service is the backbone of our operations.

The National Agricultural Text Digitizing Program (NATDP) is just one example of many which illustrates how NAL is shaping electronic information technology so that agricultural libraries can better serve the nation. Through this program, NAL and land-grant university libraries are producing and distributing to libraries nationwide whole sections of the NAL collection on CD-ROMs. The program began in 1986 as an effort by NAL and the land-grant libraries to examine and develop ways that technology advances could be applied to increasing access to agricultural information.

At the start, only NAL and the University of Vermont were working on the program, but under NAL's leadership, the program has grown to include 46 land-grant libraries. CD-ROM products have been developed covering aquaculture, international agricultural research, Agent Orange, acid rain, the journals of the American Society of Agronomy and selected papers of George Washington Carver.

Seizing the CD-ROM technology, NAL, in related projects, has developed and distributed discs covering food irradiation and ornamental horticulture. Also, working with USDA's Extension Service, NAL has developed a disc of general agricultural information for use by county extension agents in responding to the millions of agricultural questions they receive each year.

In addition to maximizing the use of the NAL collection, CD-ROMs and other types of information technologies hold great promise for NAL as we wrestle with the terrible problem of preserving large portions of the collection.

Because of the acid contained in much of the paper on which old books and documents were printed, the books and documents are literally turning to dust. A preservation study of the NAL collection conducted in 1989 showed that 50 percent of the monographs and serials were disintegrating and more than one-fourth of the volumes were brittle and could barely be used.

The National Agricultural Text Digitizing Program will help NAL preserve the knowledge on these materials. Developing other plans to meet this threat to the national agricultural literature will be a key focus for NAL for the foreseeable future.

NAL's preservation problem may be compounded by something that I mentioned earlier. And that is the fact that NAL is running out of space. Within a few short years NAL will have no more space in which to store agricultural materials. Again, putting materials in an electronic form may be one answer.

Finally, I'll mention just one other activity which NAL is anxious to continue and which is aiding the library's ability to provide comprehensive agricultural information to U.S. farmers. This is NAL's new-found cooperation with the agricultural libraries of Central European countries.

Following the break-up of the Soviet Union, NAL contacted several newly reorganized countries in Central Europe with an eye toward keeping the NAL collection



as current as possible and developing goodwill and cooperation through an exchange of library knowledge and agricultural materials. Our offers of cooperation were greeted with much enthusiasm. Through two "roundtable" discussions and through exchanges of materials, NAL is improving global access to agricultural information.

All who are participating in this effort stand to benefit and NAL will continue to focus on this activity in hopes of expanding its scope to other countries. An exchange of agricultural information between NAL and the countries of the world can only serve to improve all systems of agriculture.

I'd like to end my remarks by saying that I believe that the information gathered, maintained and provided by the National Agricultural Library, will be one of the key reasons that the United States remains in the forefront of world agricultural affairs. We at NAL will continue to do our best to meet that weighty responsibility.

Thank you. I would be happy to respond to any questions.

## NATIONAL AGRICULTURAL STATISTICS SERVICE

### STATEMENT OF DONALD M. BAY, ACTING ADMINISTRATOR

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before this Committee to discuss the National Agricultural Statistics Service (NASS) and the budget request for fiscal year 1994. This Service exists to provide useful and timely statistics and other information about the Nation's food and agricultural industry.

Especially for the new members of the Committee, I would like to provide a brief historical background of this Service. In 1862 as the first Commissioner of the newly formed Department of Agriculture, Isaac Newton established an initial goal to "collect, arrange, and publish statistical and other useful agricultural information." One year later, in July, the Department's Division of Statistics issued the Nation's first official Crop Production report.

The structure of farming and the agricultural industry has changed dramatically during the succeeding 130 years. However, the need for having accurate, timely, and impartial statistical information on the Nation's agriculture has remained essential for supporting a market economy. The crop, livestock, and other estimates developed and published throughout the year, in cooperation with State Departments of Agriculture, are a major part of the public information available concerning current agricultural conditions.

NASS reports, either directly or indirectly, have an important impact on the entire population since the Nation's food industry affects our nutritional well being and the quality of the environment in which we live. Because of this importance, it is essential that NASS does not compromise the quality or integrity of its surveys.

All reports are made available to the public at previously announced release times. These reports are not only used to assess the supply and demand of agricultural commodities but are used for establishing agricultural policy decisions relating to farm program and disaster legislation, foreign trade, commodity programs, conservation programs, agricultural research, environmental programs, rural development, and many other related activities. NASS data are examined very closely and utilized by farmers, economists, and investors as they make decisions that have considerable economic impact.

Statistical research is conducted to improve the methods and techniques used in collecting and processing agricultural data. For example, NASS has become a leader in the development of the use of satellite imagery to improve agricultural statistics. NASS also performs an expanding number of statistical services for other Federal, State, and producer organizations on a reimbursable basis.

### FISCAL YEAR 1994 BUDGET REQUEST

The fiscal year 1994 budget request is \$82,479,000. This request includes a net increase of \$1,475,000: \$865,000 for increased nonsalary operating costs; \$1,103,000 for pay costs; a decrease of \$255,000 for administrative savings; a decrease of \$200,000 for a reduction in staff-years; and a decrease of \$38,000 for FTS2000.

### MAJOR ACTIVITIES OF THE NATIONAL AGRICULTURAL STATISTICS SERVICE (NASS)

The primary activities of NASS are the collection, summarization, analysis, and publication of reliable agricultural forecasts and estimates. Farmers, ranchers, and agribusinesses voluntarily respond to a series of nationwide surveys about their crops, livestock, prices, and other agricultural activities each year. Frequent surveys are required due to the perishable nature of many food products. These surveys are

supplemented by actual field observations in which various plant counts and measurements are collected. Administrative data from other State and USDA agencies, as well as Census data, are thoroughly analyzed and utilized as appropriate. NASS prepares estimates for over 120 crops and 45 livestock items which are published annually in almost 400 reports. The World Agricultural Outlook Board utilizes NASS data for the U.S. portion of its reports as does the Economic Research Service (ERS) in its Situation and Outlook reports.

The agricultural production and marketing data that are developed and published by NASS include: number of farms and land in farms; acreage, yield, and production of grains, hay, oilseeds, cotton, tobacco, most important fruits and vegetables, floriculture, and other specialty crops; stocks of grains; inventories and production of hogs, cattle, sheep and wool, goats, catfish, trout, poultry, eggs, and dairy products; prices received by farmers; prices paid by farmers for inputs and services; cold storage supplies; agricultural labor and wage rates; agricultural chemical usage; and other data related to the agricultural economy.

The NASS agricultural statistics program is conducted through 45 field offices servicing all 50 States. All field offices operate under cooperative funding and 24 are collocated with their State Departments of Agriculture and/or Land-Grant universities. The joint State-Federal program helps meet the State and local agricultural data needs while minimizing overall costs by eliminating duplication of effort and reducing the reporting burden on farm and ranch operators.

NASS has developed a broad environmental statistics program under the Department's water quality and food safety programs. Until 1991 there was a complete void in the availability of recent, reliable pesticide usage data which was brought to light during the Alar situation. In cooperation with other USDA agencies, the Environmental Protection Agency, and the Food and Drug Administration, NASS has implemented comprehensive chemical usage surveys to correct this information void. In cooperation with ERS, detailed economic and cultural practice information is also collected for the purpose of determining the economics associated with different levels of chemical use.

For the years when a disaster program is authorized, NASS provides the Agricultural Stabilization and Conservation Service (ASCS) detailed data on crop yields and average market prices for the 120 crops for which estimates are available. Although these crop estimates cover a very high percentage of the cultivated land area in the United States, over a thousand other (mostly specialty) crops are currently covered under the disaster program for which there exists no official statistics on average yield or price.

NASS data on prices received by farmers are currently used by ASCS for the computation of deficiency payments provided under the 1990 Farm Bill. A small difference in price can amount to an over/under payment of millions of dollars. For example, a penny difference in the corn price estimate affects the amount paid by \$60 million. NASS has instituted survey quality improvements in order to better ensure the accuracy of these price data.

A statistical research program is devoted to improving methods and techniques for obtaining agricultural statistics with an acceptable level of accuracy. The growing diversity and specialization of the Nation's farm universe has greatly complicated procedures to produce the agricultural statistics. The development of sophisticated sampling and survey methodology along with intensive use of computers have enabled NASS to keep up with an increasingly complex agricultural economy.

NASS works very closely with the Census Bureau of the Department of Commerce during the development, collection, and analysis of the Census of Agriculture every 5 years. Key NASS field and headquarters personnel are sworn in as actual Census employees to meet Census security procedures while they assist with detailed analysis to help make the published census data as accurate as possible.

NASS conducts a number of surveys on a reimbursable basis for USDA and other Federal, State, and private agencies or organizations. Conducting surveys and providing other statistical services on a reimbursable basis enables NASS to increase the productivity of its organization. It enables the cooperator to have access to additional technical resources and eliminates duplicate effort, thereby increasing efficiency while reducing respondent burden.

NASS provides consulting services for many USDA agencies on survey methodology, sample design, information resource management, and statistical analysis. This consulting may take a few hours or several years and is provided either gratis or on a fee basis depending on the scope of the project.

Technical assistance in cooperation with other Government agencies is provided on a cost-reimbursable basis to improve agricultural survey programs in other countries. Until recently, this program was primarily aimed at developing countries in Asia, Africa, Middle East and South America. However, a major effort is underway



to assist Eastern and Central European countries during their transition period and NASS is prepared to assist the newly independent states of the former Soviet Union upon request. Having accurate information available as demonstrated in the United States is an essential ingredient to facilitate the orderly marketing of farm products in other countries.

NASS annually seeks input on data needs and priorities from the public through regional data user meetings with commodity groups, special briefings during the release of major reports, and numerous individual contacts. The Agency has made many adjustments in its program in response to suggestions by data users. Requests continue for expanded detail, wider geographic coverage, more frequent reports, new data series, and restoration of data series discontinued because of budget restrictions.

#### FISCAL YEAR 1994 PLANS

The budget request includes \$865,000 for increased operating costs. These resources are needed to maintain the quality and coverage of the NASS estimation program because of increased costs for data collection, ADP services, staff transfers, travel, printing, supplies, equipment, and machine maintenance.

The pay cost request of \$1,103,000 is to partially offset the January 1993 salary increase for which no funding was provided. Absorbing the full pay costs during fiscal year 1993 caused a reduction in the frequency of a number of surveys and reports and the elimination of rice, wheat, and soybean objective yield surveys in selected States.

The reduction of \$255,000 for administrative costs is to implement the President's program for reducing overall administrative costs by 3 percent in fiscal year 1994. These reductions are to come from nonsalary object classes, such as travel, contractual services, and supplies.

The decrease of \$200,000 is to support the President's program of reducing Federal full-time equivalent employment by 100,000 by fiscal year 1997. These savings will be spread proportionally between the NASS State Statistical Offices and Headquarters.

The FTS2000 reduction of \$38,000 is for anticipated reduced charges for long distance telecommunications.

This concludes my statement, Mr. Chairman, and I will be happy to respond to your questions.

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#### OFFICE OF INSPECTOR GENERAL

##### STATEMENT OF CHARLES R. GILLUM, ACTING INSPECTOR GENERAL

Mr. Chairman, members of the Committee, I am pleased to have the opportunity to discuss the activities of the Office of Inspector General and to provide you with our views on some of the major programs and operations of the Department of Agriculture.

The Office of Inspector General (OIG) performs audits and investigations for more than 300 varied and highly complex domestic and foreign programs operated by the Department's agencies. I currently have the honor of serving as Acting Inspector General for the agency and have been the Deputy Inspector General for the past 2 years. During this period, the agency has had some notable accomplishments in carrying out its mission to detect and prevent fraud, waste, and mismanagement in the Department's programs and operations, and in working with USDA agencies to take corrective action.

Fiscal year 1992 was a productive year, during which we completed over 400 audits and 1,000 investigations. From these we obtained approximately \$48 million in recoveries, collections, fines, restitutions, and administrative penalties. We had over \$135 million in overpayments for which management agreed to seek recovery, and nearly \$1.2 billion was identified for which management made commitments to put the funds to better use. Criminal indictments and convictions totaled 1,040 and 785 respectively. It is important to point out also, that such achievements are not accomplished in isolation, and would not have been possible without the cooperation and hard work of the department's program managers and the many employees of the U.S. Department of Justice.

Thus far in fiscal year 1993, we have focused our resources on the Office of Management and Budget's (OMB) designated "high risk" areas. Included in these are the Farmers Home Administration's (FmHA) loan programs, the Federal Crop Insurance Corporation's (FCIC) indemnity payment process, and food stamp trafficking in the Food and Nutrition Service's (FNS) Food Stamp Program. We are also placing

emphasis on the Department's financial accounting systems, consumer protection issues, large payments to farmers, and the guaranteed loan programs.

The focus of this work results from our strategic planning process during which we review the Department's programs where large dollar losses could occur, or where public safety and health could be affected. In developing our audit plan we also consider such issues as new or changed legislation or regulatory requirements, prior audit and investigative findings, and suggestions and concerns expressed by departmental management. Our investigative plan is influenced by priorities involving such matters as threats to public health and safety; employee integrity issues; and fraud in loan, regulatory, and benefit programs. With this approach, we have thus far been able to address, within the availability of our resources, the most critical issues and priorities affecting the Department.

With this introduction, let me now present some of the highlights of our specific audit and investigation efforts in the areas of ENTITLEMENT PROGRAMS, CONSUMER PROTECTION, DIRECT AND GUARANTEED LOANS, NATURAL RESOURCES, FINANCIAL MANAGEMENT, FEDERAL CROP INSURANCE, COMMODITY PROGRAMS, MANAGEMENT CONTROL OVER ENVIRONMENTAL HAZARDS, MARKET DEVELOPMENT and AUTOMATED DATA PROCESSING. In addition, we would like to share some of our concerns, as well as problems, which pose challenges for us in the future.

#### FOOD STAMP PROGRAM

##### *Trafficking*

The Food Stamp Program (FSP) represents almost 40 percent of the Department's budget, and has been designated as a high risk area by the Department and OMB. This year program officials estimate that approximately \$23 billion in food stamps will be issued to recipients. This is the largest program activity in the Department and, due to the ease with which food stamps may be exchanged or used as a second currency, it is the program most vulnerable to fraud and waste. With 1 in 10 Americans and more than 200,000 retail stores currently participating in the program, OIG must continue to channel substantial resources to FSP fraud prevention and detection efforts.

During fiscal year 1992, we devoted approximately 40 percent of our investigative resources to the FSP. We completed and issued 897 reports of investigation. The results of our work included 827 indictments, 598 convictions, and approximately \$4 million in fines, restitution, recoveries, and other monetary penalties.

In our annual plan for fiscal year 1993, we had anticipated devoting about 35 percent of our available investigative resources to FSP investigations. However, through the first quarter of this fiscal year, almost 50 percent of our total investigative resources have been devoted to FSP fraud investigations. These investigations have concentrated on two areas: (1) food stamp trafficking by authorized retail stores, especially those retailers whose food stamp redemptions are greater than their reported food sales, and (2) cooperative efforts with other agencies to address street trafficking of food stamps.

A major part of this effort involves our commitment of increased resources to the investigation of retailers whose food stamp redemptions are consistently and significantly larger than their estimated gross food sales that they reported to FNS. For example, we recently completed an investigation of one of the largest dollar volume food stamp trafficking cases ever charged in one State. Six grocery store owners, former owners and employees, and two corporations have been indicted by a federal grand jury for unlawfully purchasing and redeeming \$6.6 million in food stamps over a 5-year period.

In another investigation, a \$120 million civil lawsuit was filed against a grocer, two corporations, and two affiliated companies, claiming that the grocer fraudulently redeemed more than \$40 million worth of food stamps. The Government is seeking triple damages. This case represents the largest civil lawsuit ever brought against a grocer since the FSP was established in 1964. The grocer, who operated a wholesale meat business, had been authorized to participate in the FSP until 1982 when the authorizations for most wholesale firms, including his, were withdrawn to reduce food stamp fraud. Our investigation found that in 1990 when the grocer was authorized by FNS to participate in the FSP as a retail store, he then accepted food stamps from retailers at his wholesale meat store and laundered these with his retail store authorization.

Street trafficking of food stamps has received increased media attention, especially in those areas where traffickers purchase food stamps for cash from recipients near issuance sites. During the past year we have conducted several investigations,

usually with local law enforcement agencies, where we targeted traffickers who openly operated near issuance sites.

We believe that cooperative Federal, State, and local efforts are the only way to effectively deal with such street trafficking problems. As an example of such an effort, we worked with the Los Angeles Police Department (LAPD) to produce a 6 minute video tape to alert its officers to problems and enforcement responsibilities in handling street trafficking. The success of that effort has resulted in the production of a generic version of the LAPD tape that was produced for use in training State and local law enforcement agencies nationwide.

Another ongoing concern of OIG is the use of food stamps by street traffickers in drug transactions. For example, a joint investigation in one State resulted in food stamp and drug trafficking charges against 42 people. During that investigation, food stamps and cash were found to be used to purchase crack cocaine from drug dealers. The U.S. attorney's office asked OIG to lead the investigation in response to requests from local authorities and news reports that narcotics dealers were selling drugs for food stamps. To date, 31 of the people charged have received court sentences ranging from 21 months to 25 years in prison.

In another effort to reduce food stamp trafficking, the Department has approved and funded pilot projects testing Electronic Benefit Transfer (EBT) as a way of reducing the level of food stamp trafficking, particularly street trafficking. We have supported the Department's EBT initiatives. We believe that EBT will help to reduce the amount of trafficking by eligible recipients and will make trafficking by retailers easier to detect and investigate.

Recently in the test EBT project in one State two owners of a small sandwich shop and 175 food stamp recipients were charged with food stamp fraud and theft by deception in connection with their activities involving the EBT system. The investigation disclosed that the recipients illegally sold some or all of their benefits to the store owners for 65 to 70 percent of their face value in cash. We estimate the store owners defrauded the FSP of approximately \$122,000. The store owners have pled guilty to theft, conspiracy, and food stamp trafficking. To date, 132 of the food stamp recipients have pled guilty and have been suspended from participating in the FSP for a period of 2 years.

Last year we testified that we were reviewing the FNS retailer tracking system, which is used to monitor over 200,000 retailers authorized to participate in the FSP. FNS monitors retailer activity using computer profiles and analyzing food stamp redemptions to identify stores that may be violating program requirements. We completed an audit of FNS procedures for approving stores to accept food stamps and found that FNS needed to improve its screening of retailer applicants and its ability to deal with retail stores that continue to accept food stamps when no longer authorized to be in the program.

We also found that the information used in FNS' tracking system was not current. FNS had updated profile data for only about 21 percent of the retailers authorized as of April 1991. Our visits to the 120 retail stores in our sample disclosed that the information was not current for 113 of them. Without an effective system, FNS cannot identify and monitor retailers whose activities may indicate food stamp trafficking and other serious violations. For fiscal year 1992, Congress appropriated funds specifically earmarked for a special retailer integrity program. One of FNS's major efforts was to reauthorize all stores and to update sales and profile data. This effort continues in fiscal year 1993 and when completed should prove invaluable as a tool to analyze and monitor retailer activities. In conjunction with this, we believe that FNS needs to place a higher priority on visiting retailers and reviewing their operations before approving them to accept food stamps.

We believe that another tool that could improve FNS' monitoring of retailers is the expanded use of retailers' Social Security Numbers (SSN). This would allow FNS to coordinate actions with other regulatory groups, such as State taxing or licensing agencies to compare and analyze food sales data reported to these authorities. Although FNS now has limited authority to gather and use these numbers, legislation would be required before FNS could expand its use of Social Security numbers. Current authority is limited to compiling a national data base to prevent disqualified or sanctioned firms from participating in the program.

FNS officials were aware of ADP system weaknesses and identified retailer monitoring as a vulnerable area in their annual internal control review. FNS has developed plans for, and begun (1) redesigning the ADP system, (2) conducting pilot projects involving EBT systems, and (3) studying amendments to regulations to strengthen retailer authorization, monitoring, and sanctions.

We have expended considerable audit resources over the years to assess the FNS quality control process as it relates to the establishment of error rates. Although the error rates have been reduced over the years, from 9.54 percent in fiscal year 1983



to 6.96 percent in fiscal year 1991, this still resulted in estimated overpayments of \$1.2 billion in fiscal year 1991. Given the sheer size of these numbers, we believe that continuing to work to seek ways to reduce error rates is not only necessary but required.

#### CONSUMER PROTECTION

OIG continues to place high priority on consumer protection activities within the Department. These activities are performed by various inspection agencies within USDA and are designed to ensure that the food the consumer eats is safe, properly labeled and graded, and that the Nation's plant and animal resources are safeguarded.

##### *Retailer Monitoring*

The Agricultural Marketing Service (AMS) is responsible for monitoring retailers to ensure that USDA grade labels accurately represent meat and poultry products. In a recent followup audit, we found that:

- AMS visits to retailers had increased from 108 in 1989 to 694 in 1990, but in view of the violations disclosed in 12 percent of their monitoring visits, more visits are still needed;
- AMS had not yet developed appropriate methodology to allow them to statistically sample retailers nationally so that adequate coverage could be provided with a minimum of scarce resources; and
- AMS needed to more effectively use its existing authorities to cause labels to be removed, to impose fines, or to refer for prosecutive consideration, those retailers found to have deceptively labeled or advertised agricultural products.

AMS has taken corrective action by developing a risk based system designed to identify retailer outlets more prone to commit violations, and by working to establish meaningful penalties—up to \$100,000—that can be effectively and quickly applied.

In a significant investigation in the AMS program area last year, an egg products processing company, its vice president, and its production manager were convicted for conspiring to violate the Egg Products Inspection Act by concealing the presence of salmonella bacteria in their product. Both the vice president and production manager admitted they directed employees to falsify laboratory reports submitted to USDA egg inspectors. The falsified reports failed to show that approximately 500,000 pounds of dried egg product was contaminated with salmonella bacteria. The contaminated egg product, valued at about \$672,000, was purchased by 20 food processing companies located in several States. The company and the production manager pled guilty to the conspiracy charge and paid fines totaling \$51,000. The vice president pled guilty to the felony violation of allowing salmonella contamination in the egg product, was sentenced to 2-years probation, and fined \$2,000. No reports of illness were received.

A number of investigations involving the mislabeling of meat products and selling adulterated meat were also productive. For example, meat companies in 2 States were found guilty of 14 counts of conspiracy, wire fraud, and violations of the Federal Meat Inspection Act. Five company officials were also found guilty of 13 counts associated with the above-mentioned violations. The guilty verdicts resulted from an indictment which charged the defendants with selling over 3 million pounds of misbranded meat and mislabeling the products to reflect that it had been graded when it had not. One defendant, who was a meat processing quality control supervisor, caused adulterated meat that was tainted, sour, and putrid, and which had been issued from and returned to the meat plant, to re-enter that establishment and to be reworked and processed without benefit of examination or reinspection by a USDA inspector. A sentencing date has not been set.

#### DIRECT AND GUARANTEED LOANS

The Farmers Home Administration (FmHA) makes loans to family farmers, individuals for single family housing, and developers for housing projects in rural areas. As of September 30, 1992, FmHA had over 850,000 borrowers who owed about \$46 billion. FmHA also had guaranteed more than \$5 billion in loans made by private institutions. As the "lender of last resort," many of FmHA's loans are high risk and, as a result, loanmaking and loan servicing functions are critical to avoid unnecessary losses. Reviews of these loan programs are continuing.

##### *Rural Rental Housing Program*

In fiscal year 1991, FmHA obligated over \$570 million for loans to developers to construct rental housing facilities for persons living in rural areas with low to mod-



erate incomes or who are elderly. Loan terms are for 50 years and are generally made at a 1 percent interest rate.

We performed an audit of construction activity to determine if FmHA loan funds were used properly and found a high degree of vulnerability to fraud and abuse. We reported that borrowers had inflated the costs of the projects by presenting themselves as general contractors although they did not perform general contractor duties. Borrowers also required purchases to be made through other borrower-owned companies which had no office space, equipment, or employees, but existed only to add a markup to procurements. For example, one nonexistent related party company purchased windows for a project from a material supplier for \$4,217, and then added fees of \$515 and profit of \$4,018. As a result, the project was assessed \$8,750 for windows actually costing less than half that much.

Of the 20 projects we reviewed in 5 States, we found excessive construction costs charged to 10 projects that were run by 6 different borrowers. Four of these borrowers inflated construction costs by about \$540,000. The other 2 borrowers also inflated costs but were referred for criminal investigation before the potential overcharges were quantified.

Inflated construction costs result in other adverse effects in addition to unnecessary outlays by the Government. For example, due to the interest subsidies on Rural Rental Housing (RRH) loans, the \$540,000 in excess costs we identified will cost the Government about \$1.3 million over the life of the loans. Most RRH projects are syndicated for tax purposes; therefore, inflating the loan amounts results in inflated tax credits for project owners. To make matters worse, loans make for higher rents—some of which are subsidized by FmHA, for the tenants, further tending to erode the programs basic objectives.

To reduce the potential for inflated construction costs, we recommended a series of regulatory changes to tighten program requirements and FmHA has initiated corrective action. We have another audit now underway to review an additional sample of RRH contractors.

#### *Debt Restructuring Program*

The Agricultural Credit Act of 1987 provides assistance to farm borrowers who are delinquent on their FmHA loan payments. The law calls for FmHA to restructure these borrowers' loans to avoid losses to the Government and to allow borrowers to continue farming operations. It requires FmHA to modify the loans by lowering interest rates; deferring payments; or consolidating, rescheduling, reamortizing, or writing down debts. If a borrower cannot pay a loan that is substantially written down and he or she still wants to avoid foreclosure, the borrower is given the option of buying out the loan at the net recovery value of the loan collateral. This is called a debt "writeoff."

Borrowers have an incentive to portray the bleakest picture of their operations when applying for debt restructuring in order to maximize the debt forgiveness. Our prior audits disclosed numerous problems with borrowers reporting inaccurate information to qualify for, or to increase the amount of, the writedown or writeoff. When applying for a loan, however, borrowers have an incentive to depict the best possible financial outlook to ensure loan approval.

At the request of FmHA, we conducted an audit of 10 borrowers who had bought out their FmHA debts at net recovery value and returned to FmHA within 1 year for subsequent farmer program loans. The 10 borrowers we reviewed had received writeoffs of over \$2.4 million and new loans of about \$1.7 million.

Our review disclosed that for 9 of the 10 borrowers reviewed, either the net recovery buyouts or the subsequent loans, or both, were based on inaccurate information. Six of the borrowers received over \$739,000 in excessive writeoffs which resulted in unnecessary losses to the Government. Five of the borrowers did not qualify for \$811,600 in subsequent loans because repayment margins did not meet the minimum requirement. Two of the 9 borrowers did not qualify for either the writeoffs or the subsequent loans.

We recommended that FmHA: (1) require counties to reconcile variances between the borrowers plans for net recovery buyouts and for subsequent loans, and (2) develop procedures for approval of all future loans for net recovery buyout borrowers.

FmHA agreed to review cases cited in the audit and to require other debt writeoffs and subsequent loans to be approved by State directors. FmHA also agreed to develop procedures for State officials to follow before approving subsequent loans.

## NATURAL RESOURCES

*Forest Service*

The Forest Service (FS) manages over 191 million acres of land in the National Forest System. A significant part of this responsibility is the protection of the natural resources from forest fires. FS owns, operates, and contracts for aircraft to help suppress forest fires.

*Aircraft Exchanges*

In 1987, some airtanker operators under contract to FS were forced to ground their C-119 piston-engine aircraft for safety reasons. An airtanker industry representative then approached the Department of Defense (DOD) with a proposal to exchange the C-119's for excess C-130A and P-3A turbine-powered aircraft. DOD refused the offer because the C-119's had little historic or monetary value to the Air Force and because prior abuses by private firms flying military aircraft had occurred. One company and the industry consultant, who had a prearranged agreement with several contractors to receive one-third of all planes obtained from DOD, then approached FS for support. FS, working through the General Services Administration, obtained 28 excess aircraft from DOD with a value of at least \$28 million. FS then gave both the planes and their titles to the airtanker contractors. FS officials justified the exchanges on the basis that they would obtain historic aircraft from the contractors, reduce airtanker contract costs, and improve safety.

We determined that the exchanges were not in compliance with Federal property regulations. The Office of the General Counsel (OGC) also reviewed and advised the Forest Service that it did not have the authority to make the exchanges or to give title of the aircraft to the contractors.

Although the exchanges were to be at no cost to the Government, the contractors incurred \$2.2 million in costs by buying back the four C-130A aircraft they had provided to the consultant and by refurbishing the "historic" aircraft they traded in. To recover these costs, the contractors may attempt to charge the Government in the form of higher contract fee rates.

In addition to these problems, we found that initially some contractors registered the aircraft with the Federal Aviation Administration (FAA) under the consultant's type certificate, and some under their own FAA certificates. The "type certificate" describes the purposes for which aircraft can be used. More than a year after the exchange, FS obtained the consultant's type certificate from the contractor and had it amended by FAA to provide for additional restrictions. Most contractors voluntarily registered their C-130A aircraft under the revised type certificate. Our review disclosed that one airtanker contractor attempted to sell the aircraft for nonfirefighting purposes, another sold aircraft parts for profit, and two contractors used the aircraft for purposes unrelated to firefighting. For example, one contractor improperly used aircraft to transport cargo in the Persian Gulf. (FS, upon being made aware of this activity, successfully took action to have the aircraft returned to this country.) However, one contractor is currently attempting to sell C-130A aircraft to a foreign country for a substantial profit.

FS also stored seven additional excess military aircraft on contractors' facilities after being notified by OGC that the exchanges were not legal. Although FS still owns and has title to the seven aircraft, the contractors have improperly removed parts from four aircraft to use on their private aircraft and converted one Government-owned P-3A aircraft into an airtanker. The four aircraft have an estimated value of at least \$4 million as parts.

We recommended that the FS seek OGC legal assistance to recover the aircraft improperly conveyed to the contractors, and that FS implement additional controls over both the aircraft and contractor billings to ensure against the Government being charged for questioned costs. FS has developed an action plan which is being analyzed within the Department.

*Soil Conservation Service*

The Soil Conservation Service (SCS) administers programs designed to help protect and improve land and water resources. SCS carries out two major activities: conservation operations and watershed and flood prevention operations.

*Conservation Compliance*

The Food Security Act of 1985 encourages farmers to conserve highly erodible land in areas used for agricultural production. To remain eligible for Federal farm program payments, producers who want to farm highly erodible land must submit a plan to SCS for approval and implement approved conservation measures to reduce soil erosion.

This year we continued our coverage of this critical program activity through a review of producers' compliance with the conservation provisions of the Food Security Act and USDA's monitoring of this compliance.

We selected 220 conservation plans located in 10 States with 65 percent of the Nation's highly erodible cropland. We reviewed plans that called for at least one conservation practice to be implemented by 1991. At the time of our field visits, about 10 percent of the producers in our sample had not implemented required conservation practices. We estimated that producers in the 10 States were scheduled to receive about \$20 million in 1991 program payments even though they had not implemented the required conservation practices. Our audit disclosed that when SCS personnel found producers who violated conservation requirements they did not refer them to the Agricultural Stabilization and Conservation Service (ASCS) for a determination of their eligibility to receive program payments. We also determined that an estimated 10,000 tracts, from which producers were expected to earn about \$150 million in program payments, had not been reviewed at a time when SCS could reliably determine the success of the practice. SCS procedures did not provide adequate controls to assure the reviews were completed at the best time. Further, we noted that SCS personnel did not identify some deficient plans during their compliance reviews, and they did not require correction of deficient plans that they did identify. Of the 116 plans that had been reviewed before our audit, 102 had material deficiencies not identified by the compliance reviewer.

We recommended that SCS improve communications with producers, strengthen national procedures, improve operational controls, and coordinate interagency activities. SCS and ASCS concurred with our findings. SCS is developing corrective actions, and both agencies have established a task force to improve their method of handling farm reconstitutions.

#### FINANCIAL MANAGEMENT

##### *Audits of Financial Statements*

Few legislative initiatives have had as significant an impact on the Federal community as the Chief Financial Officers (CFO) Act of 1990. The Act seeks to improve Federal financial management by requiring, among other things, that agencies integrate budget, cost, and financial management information; develop systematic performance measures; and prepare annual financial statements. USDA was designated as one of several pilot agencies to submit audited agencywide financial statements beginning with fiscal year 1990 statements. This requirement has significantly impacted OIG operations due to the magnitude of these audits and the resources required to perform them.

In fiscal year 1992, we fulfilled the requirements of the CFO Act by completing audits of the fiscal year 1991 financial statements for the Commodity Credit Corporation (CCC), the Rural Electrification Administration (REA), FmHA, FNS, FS, and FCIC as well as the consolidated agencywide financial statements. We issued unqualified (clean) opinions for FmHA, CCC, FCIC, and REA. We qualified our opinion on FNS because of our inability to validate the accounts receivable balance and the associated provision for loss. FNS reported about \$900 million in gross accounts receivable which was reduced to \$300 million after allowing for uncollectibles. However, because State and local governments did not maintain accounting systems which supported the value of claims reported to FNS, we could not validate these amounts. We issued an adverse opinion on the financial statements of FS because supporting accounting records were incomplete or insufficient and did not meet standards for reliability. This was caused in part by the lack of an integrated accounting system which would allow uniform processing of FS transactions. As a result, the financial data for the FS asset balance was unreliable.

Our opinion on the consolidated USDA financial statements also resulted in an adverse opinion. Accounting standards were applied inconsistently and incorrectly, accounting records were not always sufficient to support account balances, and account balances themselves contained errors and omissions. For example, actual outlays shown in the budget differed from amounts shown on the financial statements by \$2.6 billion. We are currently performing audits of the fiscal year 1992 financial statements for all major USDA agencies and corporations and the fiscal year 1992 consolidated USDA financial statements. The completion of these audits will fulfill the CFO Act requirements for fiscal year 1992.

##### *General Controls at the National Finance Center*

An audit performed under contract by an independent certified public accounting firm disclosed four material weaknesses in the National Finance Center's (NFC) internal control structure. The general control structure was inadequately documented



and did not comply with the requirements of OMB and the General Accounting Office. Also, documentation for accounting and automated data processing (ADP) controls was inadequate, material adjustments to the general ledger were made without user authorization or approval, and ADP program changes were not adequately documented or controlled.

We recommended that NFC develop general control objectives and techniques, develop general ADP control policies and procedures, initiate or approve all entries and adjustments by user agencies, and improve procedures for ADP program changes.

We are currently conducting an audit of NFC's fiscal year 1992 general controls, following up on the weaknesses identified in the prior audit.

#### FEDERAL CROP INSURANCE CORPORATION

Overpayment of FCIC claims has been identified as a "high-risk" area by the Department. Recently, FCIC has expanded its compliance staff and has initiated a comprehensive enforcement strategy to combat fraud and program abuse by imposing various sanctions. We believe the compliance staff is vitally important to the success of the FCIC program. Because of the risk in this area, we have continued to include claims adjustment as a part of our audit coverage.

In fiscal year 1992, our audits targeted 16 claims that were each in excess of \$90,000. We found that because of incorrect insurance coverage and improper loss adjustments, insureds received excessive indemnity payments totaling \$1.5 million. For example, for a 1990 tomato policy in one State, \$859,857 was paid where the producer failed to report production on an uninsured field. FCIC referred this situation to OIG and is currently awaiting the outcome of the investigation before taking further action. Also, on this same policy, \$164,358 of indemnities was paid on acreage that was ineligible for FCIC insurance coverage since it was susceptible to freezing weather.

We are continuing to work with FCIC to recover the overpayment of indemnities and administrative expenses and to improve insurance servicing and adjustment procedures. Also, we now have a nationwide review underway to follow up on the current status of claims adjustment.

In one investigation on false claims, 17 farmers recently pled guilty to defrauding FCIC of almost \$1.5 million for crop years 1987 to 1991. The farmers concealed their actual production of soybeans, rice, and wheat, and later filed insurance claims for nonexistent losses. Investigations of other producers are underway with additional false claims anticipated to total more than a million dollars.

#### COMMODITY PROGRAMS

In our ongoing reviews of ASCS, we have continued to emphasize abuses of the payment limitation and disaster program regulations.

##### *Payment Limitation*

In 1980, Congress established an annual \$50,000 payment limitation per person and, in 1987, tightened eligibility over these requirements by further limiting eligibility. The new requirements allowed the farmers to reorganize their farming operations in 1989 as long as they did not increase the number of eligible "persons" they had in 1988. As a result, many large partnerships, with more than enough "persons" to receive the maximum amount of possible payments for their farming operation merely transferred ownership among the corporate partners to satisfy the new requirements.

In prior appropriation hearings and semiannual reports to Congress, we reported that farmers have been using "shell" corporations to qualify additional "persons" for payments on their farms. Despite attempts by Congress to tighten controls over payment limitation provisions, program abuse continues through the use of "shell" corporations. These corporations are often undercapitalized and make no substantive contribution to farming operations other than management provided by certain members of such corporations.

For example, we reviewed 26 farming operations that were reorganized for 1989. Seventeen of these operations qualified 217 "persons" who received \$8.2 million in payments. We found that 150 of the corporate partners in these operations were "shell" corporations used to qualify additional "persons" for payment. Without the 150 "shells," the farms would have only received \$2.6 million or 70 percent less. We have recommended that ASCS (1) allow an individual's contribution of management to qualify only one "person" as "actively engaged" in the same farming operation, (2) require stockholders of corporations to provide active personal labor or manage-



ment, and (3) require corporate partners in a general partnership to have assets at risk in proportion to their shares in the farming operation.

ASCS believes that our recommendations are not consistent with the intent of Congress. Regarding the use of "shell" corporations to circumvent payment limitation requirements, the Department's OGC has advised ASCS that current payment limitation regulations fail to contain a restriction of, or reference to, "shell" corporations that would justify a restrictive determination. Therefore, until regulations can be changed, it would be arbitrary and capricious for ASCS to apply a "shell" corporation rule to producers using corporations to qualify additional persons for payments.

Because of the positions of ASCS and OGC, we believe that the payment limitation regulations need to be strengthened. Congress expressed similar concerns, in the House of Representatives' December 1992 Majority Staff Report to the Committee on Government Operations. This report stated that "Congress needs to enact further limitations of payments to prevent this abuse. A more sophisticated and comprehensive management effort by ASCS, including more intensive yearend reviews, could also help save millions of dollars annually."

#### *Disaster Assistance*

The Disaster Assistance Act of 1989 expanded disaster assistance to nonprogram crops such as cucumbers, squash, and tomatoes. This expanded coverage has also been authorized in all subsequent disaster assistance legislation including the Supplemental Appropriations, Transfers, and Rescissions Act of 1992.

Our audits have disclosed major problems in administering the nonprogram crop disaster assistance. The major problem areas we have identified are (1) producers not reporting all of their crop production, (2) producers exceeding the \$2 million gross income limitation for receiving disaster assistance, (3) producers reporting crop shares that exceed the producer's share of the risk in producing the crop as stated in contracts with such entities as packing sheds, and (4) ASCS establishing incorrect crop yields for payment purposes. Many of the weaknesses identified have resulted from, at least in part, (1) ASCS's lack of historical experience regarding nonprogram crops, and (2) ASCS's regulations not being specific enough and thereby allowing significant county committee discretion in administering the program.

Also, we currently have an ongoing audit and investigation in one State, which is the result of a whistleblower complaint, that alleged a second crop was planted with the intent of getting a disaster payment rather than for harvest of a commercial crop. In one county in that State about 500 acres of squash were planted annually prior to the initiation of the disaster programs in 1990. However, in 1992, as many as 10,000 acres of squash were planted. The County Executive Director attributed the increases directly to the disaster program. Our work on disaster payments continues.

#### MANAGEMENT AND CONTROL OVER ENVIRONMENTAL HAZARDS

Our work in this area disclosed that USDA policies dealing with Occupational Safety and Health Administration's chemical hygiene requirements for hazardous materials or waste management in laboratories, needed to be improved. Six of the agency's policies did not provide ways for managers to monitor laboratory practices. We also found instances of improper labeling of hazardous chemicals, inadequate labeling of abandoned materials, and unreported waste disposal sites. Of significance, in this later category, were 59 of 64 FmHA hazardous waste sites, which by going unreported, caused the Department's estimate for environmental cleanup to be understated by \$2.2 million. Departmental officials agreed with our findings, and have instituted corrective actions. We are continuing our work in this important area by implementation of a review of the Department's management of underground storage tanks.

#### MARKET DEVELOPMENT

##### *Foreign Agricultural Service (FAS)*

During the past year, we have continued to direct audit and investigative resources to the Department's General Sales Managers (GSM) 102 and 103 export credit sales guarantee programs. Additionally, we have testified on several occasions before the subcommittees of the House Agricultural Committee, the House Banking Committee, the House Judiciary Committee, and the House Ways and Means Committee on our continuing audit and investigative activities in the GSM 102 and 103 programs; specifically, the investigation of the Atlanta branch of Banca Nazionale del Lavoro (BNL), the audit/investigations relating to Iraq's participation in the GSM 102 and 103 programs, and FAS' administration of the GSM 102 and 103 pro-

grams. During 1993, we continue with our work in the GSM 102 and 103 programs. Let me summarize our work in these areas.

#### *Banca Nazionale del Lavoro (BNL)*

OIG agents continue working as members of the BNL-Iraq investigative/prosecutive taskforce in Atlanta. Of the 14 individuals or firms indicted, 7 have pleaded guilty, and 2 of those have been sentenced to a total of approximately \$1 million in fines, \$13 million in restitution, plus debarment, while the other 5 await sentencing. The taskforce is investigating additional subjects, some of whom deal in agricultural commodities.

#### *Other Audits and Investigations*

Since 1988 OIG has conducted four audits and several criminal investigations related to the GSM 102 and 103 export credit sales guarantee programs administered by the FAS and the Commodity Credit Corporation (CCC). Our reviews which included sales transactions to several countries including Iraq, identified four significant areas where improvements were needed in program controls and procedures. Specifically, we found that: (1) Commodities of foreign origin were exported under the program as U.S. goods (some were 100 percent foreign), (2) exporters received excessive credit guarantees by inflating sales prices for GSM commodities, (3) after-sales services payments were made to Iraq, and (4) CCC's process for assessing the credit-worthiness of foreign banks needed strengthening.

In October 1989, December 1990, and March 1991, we issued audit reports which identified problems with exports of foreign-origin products under the GSM 102 and 103 programs. Specifically, we found that some exporters shipped foreign-origin products as domestic products and received GSM guarantees. The December and March reports also identified payments of after sales services. The most widespread of these violations related to tobacco exports where we estimated losses to be approximately \$37.3 million.

In each of these reports, we recommended that the Department consider suspension or debarment of exporters who committed program violations, and recover losses related to any default claims. As a result of our audit work and subsequent investigation, eight companies entered guilty pleas for filing false statements with the Government in connection with sales of tobacco to the countries of Egypt and Iraq. Two of the eight companies pled guilty to making false statements with respect to origin, and six companies pled guilty to making false statements with respect to port values. The eight companies were fined a total of \$300,000 and ordered to pay \$625,000 in restitution.

We are currently completing a followup audit of the issues we identified in our March 1991 audit of GSM sales prices. Our work, thus far, indicates that the Department has implemented an effective price review system for the GSM 102 and 103 programs.

Our March 1991 audit report also identified three exporters, in addition to the tobacco exporters, who had included after sales services payments to Iraq in their GSM guarantees, and whose sales prices to Iraq appeared to be far in excess of prevailing world prices at the time of sale. We are currently conducting investigations into these matters.

FAS has made significant improvement in GSM 102 and 103 programs. We plan additional followup this year to review FAS corrective actions.

#### AUTOMATED DATA PROCESSING

USDA agencies continue to expand and upgrade their automated systems. Large mainframe computers are utilized to operate centralized accounting, payroll, and administrative type systems. Personal computers have been distributed to thousands of worksites nationwide. These computers are used both as stand alone units and as links in local and national networks. This widespread use of automation requires effective security and control; however, our audits have disclosed security problems involving both mainframe and personal computers.

For example, we were able to gain unauthorized access to the mainframe computer at the USDA's National Finance Center in New Orleans. We accessed sensitive information governed by the Privacy Act and were able to gain access to the payroll system and to data used to process about \$9.5 billion in payments annually for 32 Federal agencies.

Out of a sample of 300 minicomputers in the SCS, we were able to gain unauthorized access to 36 separate computers located in 21 different States. For some of the systems we accessed, managers were not aware of the penetration. In addition, these penetrations were made after security weaknesses had been reported to SCS in three previous audit reports and after agency managers were notified that audi-

tors were going to make such attempts. We conducted a review at FmHA's Finance Office and 38 field offices in 5 States to determine whether FmHA maintained the integrity of and security over data transmitted from field offices to the mainframe computers at the National Computer Center (NCC) in Kansas City. We found that security weaknesses left sensitive files vulnerable to unauthorized access and enabled OIG to penetrate the systems. Automated edit checks were routinely bypassed without authorization, and inventories of computer equipment were not complete and accurate.

Our reviews of security at the NCC disclosed that problems identified in prior audits of security continued to exist. For 15 of the 27 audit recommendations we had made, NCC had either not fully implemented agreed upon corrective action or the corrective actions were not effective, and the agencies had not initiated or proposed new corrective actions.

We recommended that FmHA, SCS, NFC, and NCC managers conduct comprehensive reviews of security and implement the necessary controls. These managers have already addressed and corrected the most serious security weakness and are in the process of correcting the remaining weaknesses.

#### CONCERNS AND PROBLEMS

##### *Requirements Impacting on Daily Work*

There are forces impacting on the operations of, or problems confronting, the OIG which I would like to share with the Committee, so that the Committee's members can better understand and, if appropriate, work with us to achieve necessary solutions. The first of these areas of concerns, but certainly not the most important, deals with the growing number of requirements being imposed upon the OIG. Many of these, for example, are congressionally mandated by statutes requiring audits or work relating to: Contracted advisory and assistance services; restrictions on lobbying for Federal funds; agency financial statements; financial integrity; peer reviews; and continuing professional educational requirements. Each of these consume varying amounts of staff resources. The most staff intensive of these to date has been the Chief Financial Officers Act. While we are in the early stages of implementation, it has required a commitment on our part of over 80 staff years and costs of almost \$8 million. It certainly is not our intention to question the need or importance of any of these requirements. What I want the Committee's members to know is that we have to deal with these requirements in making decisions as to which audits we can or cannot do, including work which is often important because of its interest to this and other Committees of the Congress.

##### *Whistleblower Concerns*

Of great concern to us are recent reports we have received suggesting that there is a perception amongst some that whistleblowers' identities are not being properly protected and that whistleblowers are being reprised against. A related concern evolves from perceptions that hotline complaints are treated lightly because many of the hotline complaints we receive are referred to Departmental managers for review and resolution.

Let me comment on the whistleblower issue that has been raised. In so doing, I want the Committee to know that we are not aware of any situation in which the identity of a whistleblower has been improperly compromised, or any situation in which a whistleblower has been reprised against. Either situation would, of course, be unacceptable; and, while we do not possess evidence that such acts have occurred, we are making efforts to work with those who have conveyed these concerns to us, to surface the appropriate facts and take whatever actions may be required. The troublesome aspect of this is that even if there are no actual misdeeds to be addressed, the mere perception that whistleblowers do not receive every protection and consideration provided by law or regulation, must be overcome, and we will work to that end.

##### *Hotline Referrals and Activities*

The concerns raised about the hotline, like those involving whistleblower protections, are not taken lightly by the OIG, and are deserving of consideration and explanation.

In 1978, OIG began operating a hotline to receive whistleblower complaints from USDA employees and the public. A staff consisting of three complaints analysts and two administrative support personnel receive these complaints by way of a toll free telephone service, a local telephone line, a post office box, and on occasions from interviews in OIG offices. The complaints involve allegations of fraud, waste, and mismanagement in the Department's programs or operations.



One particularly troublesome aspect of our hotline complaint processing operations is the need to refer some of the complaints to agency managers, rather than conducting OIG audits or investigations of all complaints. The simple truth is that we do not have the resources to investigate every complaint that comes in over the hotline. The number of complaints has increased from 389 in fiscal year 1979 to almost 4,000 in fiscal year 1992. We have handled more than 22,000 complaints through the hotline since 1978.

To deal with this volume we have a senior criminal investigator review each complaint to determine what kind of inquiry will be made. Many of these are referred to the agency that administers the program or operation that is the subject of the complaint. We tell the agency, at a level above the suspect individual or office, what questions or issues we want them to resolve, and generally ask for a written report of their findings. These actions are then reviewed to determine whether suitable inquiry was made and documented, and to ensure that appropriate criminal, civil, or administrative action can be taken.

The issue of having agencies investigate matters regarding their programs or employees is not unique to the hotline. Each year we are unable to investigate about 1,000 allegations of wrongdoing or employee misconduct which agency managers refer to OIG for investigation. Because of the demands on our resources to do other, higher priority work, only the most serious matters involving top management officials, substantial program losses, or criminal wrongdoing are investigated by the OIG. We hold no illusions that these processes are not without shortcomings.

#### FISCAL YEAR 1994 BUDGET REQUEST

The fiscal year 1994 budget request for the Office of Inspector General is \$63.9 million. This request is a net increase of \$1.1 million over the fiscal year 1993 budget of \$62.8 million. This increase includes funds to cover mandated pay costs in fiscal year 1992 and fiscal year 1993. No program or staffing increases are requested.

This concludes my statement, Mr. Chairman. I appreciate the opportunity to present these views, and I hope that my comments are helpful to you and the Committee.

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#### OFFICE OF INTERNATIONAL COOPERATION AND DEVELOPMENT

##### STATEMENT OF JOHN A. MIRANDA, ACTING ADMINISTRATOR

Mr. Chairman, members of the Subcommittee, thank you for the opportunity to share with you the work of USDA's Office of International Cooperation and Development. I'll begin with a brief overview of OICD's mission, provide you with background on our budget, and then tell you about the kind of work we do.

OICD's programs are aimed at strengthening U.S. agriculture's global competitiveness and leadership while, at the same time, supporting economic growth in the developing countries of Asia, Africa, and Latin America, and in the emerging democracies of Eastern Europe and the former Soviet Union.

These international efforts lead to medium- and long-term trade benefits for the United States as we help these countries stabilize, reform, and strengthen their agricultural sectors. As we know from historical perspective, growing incomes in developing countries permit people to increase their imports to help meet expanding demands for a larger and more diverse market basket of goods, including food, fiber, and other products. Again, past experience demonstrates this can lead to a stronger U.S. agricultural community through increased exports of U.S. agricultural and other goods and services to fill the needs of our neighbors around the world.

OICD was established in 1978, and was given responsibility for the Department's programs related to international scientific and technical exchanges, liaison with international organizations, international technical assistance and training, and international collaborative research. OICD's establishment was designed to increase efficiency and improve communication within the Department regarding international development activities. It also provided a much needed central point of contact for people in USDA, other federal agencies, the university community, and the private sector who needed information or assistance related to the international development activities of the Department.

In fiscal year 1992, OICD carried out its work with a budget of \$38.8 million. Less than 20 percent of this, only \$7.2 million, came from direct appropriations. The appropriated funds serve primarily to operate the agency's research and scientific exchange programs, liaison with international organizations, the Cochran Fellowship Program, and the Agribusiness Promotion Program.



The largest part of the agency's budget—\$28.4 million—came from the reimbursable technical assistance, research, and training programs which OICD manages. Of the reimbursable program funds, 60 percent came from our work with the Agency for International Development on more than 80 project agreements. The balance comes from the Support for East European Democracy, or SEED Act, and non-AID sources, including other USDA agencies, international organizations, and universities. An additional \$3.2 million was expended in 1992 for technical assistance activities managed by OICD on behalf of the World Bank and countries such as Spain and Saudi Arabia.

OICD has approximately 200 employees, about 135 of whom are permanent staff. The remainder hold various kinds of non-permanent positions related to specific fixed-term contracts which the agency manages. Roughly 190 OICD employees are located in the Washington metropolitan area; the rest are stationed overseas on long-term assignments.

Throughout the year, in addition to our regular staff of about 200, we usually have as many as 400 to 500 additional individuals working on projects involving more than 70 countries. To fill these jobs, we tap the resources of the many USDA agencies, other federal government agencies, the U.S. university system, and the private sector for the particular expertise required for a project—anything from biotechnology to nutrition to the environment. Our job is to manage USDA's international programs, maximizing the benefits to both the United States and other countries. We do this by reaching out, identifying, and using the vast resources available in the U.S. agricultural and scientific communities to meet needs identified by the various organizations who call on us.

Now I'd like to tell you a little about each of our four program divisions, and give you a very brief overview of the work they do.

Activities in our Research and Scientific Exchange Division are funded through a combination of all three sources of our funding—appropriated, reimbursable, and trust funds. There are three major components of the division's work. The first is the administration of collaborative research. Through long-term research projects, U.S. researchers collaborate with their international counterparts on high priority problems for the U.S. agricultural community, such as citrus canker or the Africanized honeybee. Research is carried out both here and overseas and is funded either by U.S. dollars or by foreign currencies made available from expired Public Law 480 agreements or other sources. The research conducted overseas often cannot be conducted in the United States due to quarantine considerations or the need to study a particular organism or disease in its natural habitat.

There is also the added benefit that such research is usually done at significantly lower cost than is possible in the United States. In fiscal year 1992, this division managed 53 collaborative research projects in 15 different countries, and an additional 164 projects were ongoing in six countries using foreign currencies.

The second component is our scientific exchange program, where U.S. and foreign scientists make short-term visits to each other's country to exchange information of mutual benefit as well as technology, germplasm, and biological materials. In fiscal year 1992, we managed 111 exchanges involving 25 countries and 216 participants. These exchanges have proved invaluable over the years in improving U.S. crops, forestry, and livestock.

Under the auspices of this program, OICD manages a major long-term scientific exchange program with China, a country with a vast reservoir of germplasm resources important for the improvement, protection, and continued diversity of U.S. crops. This past year, 21 teams of U.S. and Chinese scientists visited each other's countries to exchange information on topics of importance to agriculture. Just to mention a few, scientists exchanged plant germplasm resources and biological control agents to protect citrus fruits and stored grains, and a team of U.S. plant quarantine officials visited China to discuss U.S. medfly quarantine practices—an obstacle to U.S. fruit exports to China.

Our reimbursable research programs, the third component, operate mainly in Egypt, India, Thailand, Eastern Europe, and the newly independent states of the former Soviet Union.

For example, the National Agricultural Research Project in Egypt, a far-reaching AID-funded project involving the cooperation of OICD and USDA's Agricultural Research Service, is supporting 28 collaborative research projects. These projects will improve the agricultural research system in Egypt, providing Egyptian farmers with appropriate technology and a supportive policy environment in which to apply that technology.

Our Food Industries Division's emphasis is on agribusiness and is also funded from all three sources—appropriated, reimbursable, and trust funds. This division's Trade and Investment Program helps promote U.S. exports while supporting the de-

velopment of a healthy, vital, private sector in other countries through marketing workshops, in-country technical team visits, and trade missions. They are involved with the Caribbean Basin Initiative and run an Agribusiness Information Center that provides information regarding export/import regulations and other information needed by U.S. investors and exporters.

The program's scope of work has grown and diversified recently, in both content and geographical breadth. We are now working in the Caribbean, Central American and Andean countries, Central Europe, Sub-Saharan Africa, and the Near East.

In 1992, we sponsored agribusiness opportunity missions for U.S. business men and women to Guatemala, the Dominican Republic, and Jamaica, and advance missions to Belize, Honduras, Hungary, and Nicaragua. Through these missions, U.S. entrepreneurs gain the opportunity to meet and develop joint partnerships with their counterparts in countries to which they may not otherwise be exposed. Developing joint ventures and other business linkages puts American companies in a stronger position to gain access to markets for U.S. agricultural and other products.

The division's Professional Development Program provides career-related training for foreign agriculturalists. This training takes place in U.S. universities and institutions and is funded by an international organization or a foreign government. In fiscal year 1992, over 200 participants from 56 countries were placed with U.S. institutions, fostering long-term relationships and future collaboration when the participants return home.

The Cochran Fellowship Program trains young professionals from middle-income countries and emerging democracies and exposes them to U.S. systems, goods, and services to foster mutual trade and promote development. In fiscal year 1992, 472 Cochran Fellows from the public and private sectors of 21 countries received training in the United States, and the program has been a resounding success according to resident USDA agricultural counselors. The Cochran Program has played an especially important role in USDA's efforts to assist Russia and other new republics in the former Soviet Union.

The Development Resources Division, our largest, is funded completely through reimbursable projects and trust funds. This unit coordinates and provides technical assistance to developing countries, using the expertise of its own personnel, other agencies of the Department, and the university community. Its management and training unit conducts short-term technical training in the United States for foreign agriculturalists. More recently, the unit is also conducting specially designed in-country training overseas. We anticipate the demand for this training will grow.

The division's major areas of focus are forestry and natural resources, soil and water management, plant protection and animal health, information management, and business management and administration.

In a major undertaking, we are working closely with other USDA agencies to provide technical assistance to the Agency for International Development's natural resource projects worldwide, and policy development and implementation regarding environment and energy concerns here in Washington. Growing pressure on the world's natural resources has heightened the importance of efforts such as these.

While the goal of this division is to build sound institutions and to develop indigenous technical expertise in developing countries over the medium-to-long-term, our famine mitigation unit is presently involved in the U.S. response to the emergency situation in Somalia. Currently, we have a famine mitigation specialist on a 3-month detail to the Horn of Africa assisting AID's Office of Foreign Disaster Assistance Somalia Response Team. This specialist reviews and selects AID-funded agricultural projects that will be implemented to help alleviate the suffering in Somalia and throughout the region.

Our fourth division is the International Organizations Division, which has a small staff, funded entirely through appropriations. This division acts as USDA's liaison with international organizations concerned with agriculture. These organizations include the Organization for Economic Cooperation and Development, the Food and Agriculture Organization of the U.N., the World Food Program, and the Inter-American Institute for Cooperation in Agriculture. All told, we are actively involved with about 30 different international organizations whose agendas can have an impact on U.S. agriculture.

Last year's United Nations Conference on the Environment and Development highlighted the increasing interrelationships between agricultural, environmental, and trade issues. Decisions in any one of these areas affect all of them. The Organization for Economic Cooperation and Development has become one of the significant fora for reviewing the impact of policies in these areas. As the work of OECD is expanding, it is affecting more USDA agencies and OICD is expanding its coordinating role vis a vis OECD. At the same time, we are also designating staff to be re-



sponsible for follow up to UNCED in the U.S. government as well as in international organizations.

While USDA has a long history of active interaction with the Food and Agriculture Organization of the United Nations, this working relationship will also grow as FAO responds to the agenda set by UNCED. Many USDA agencies, such as the Forest Service, the Animal and Plant Health Inspection Service, and the Agricultural Research Service, work very closely with FAO on matters of concern to U.S. agriculture. OICD places high priority on maintaining this productive relationship, especially in such programs as the Tropical Forestry Action Program, in the Working Group on Plant Genetic Resources, and in the activities of Codex Alimentarius.

OICD also helps promote U.S. candidates for posts in international organizations through the Associate Professional Officers Program, which provides international work experience for junior professionals from the United States. The first seven Associate Professional Officers who had been placed with the Food and Agriculture Organization and the International Fund for Agricultural Development had all completed their tours of duty by the summer of 1991. Two new APOs were appointed and left for their assignments during 1992. Both will be working with FAO, one in Quito, Ecuador, and the second in Jakarta, Indonesia. In fiscal year 1993, APOs will work in the areas of agricultural marketing, natural resources, forestry, nutrition, and pest management.

In addition to our ongoing activity with the international organizations, this year the international community must elect new leadership for the Food and Agriculture Organization and the Inter-American Institute for Cooperation in Agriculture. OICD works with the Department of State to establish criteria used to identify the best candidates for the U.S. Government to support in the elections.

I would now like to briefly turn again to the budget situation for OICD. For fiscal year 1993 OICD's appropriated budget is again \$7.2 million. This is a small but very important component to our total budget, which is projected for this year at \$45.7 million. This represents a 22 percent increase in the reimbursable and trust fund portion of our budget over fiscal year 1992.

For fiscal year 1994, we are requesting \$7.3 million for our appropriated programs. This increase of \$96 thousand is the net of an increase commensurate with a current services level, and a 3 percent cut in administrative costs. We expect our reimbursable and trust fund programs to operate at roughly the same level in fiscal year 1994 as in 1993.

As I mentioned earlier, in all of its activities, OICD draws upon the resources of other USDA agencies, the U.S. land-grant university system, other federal agencies, the private sector, and in-house expertise. We are actually, in many cases, an agency that showcases and provides to governments and institutions abroad the significant talent and expertise encompassed in these institutions. In fact, we operate much like a private sector entity within government rules and regulations. We do not have time to "rest on our laurels" because such a large part of our budget comes from reimbursable and trust funds—funds we must obtain and maintain through proven successes.

Mr. Chairman, in closing, I would like to highlight the fact that a major proportion of the world's population—four billion people—live in developing countries. The majority earn their living through agriculture, the number one occupation in most of these countries. Of those 4 billion people, 2.5 billion live in rural areas, and half of those live below the poverty line. A recently released study by the International Fund for Agricultural Development on results of foreign aid program in developing countries says that well intentioned donors have missed the point of development assistance. That is, the rural poor are not an obstacle to economic recovery but the very key to producing it. To quote from the report, "Poverty is less of a failure of the poor, than a failure of policy makers to grasp their potential."

We at OICD do understand that potential. We well recognize that the world is a "global village" whether viewed from the perspective of trade, nutrition and health, or the environment. OICD is proud of the role it plays in helping both U.S. agriculture and the global village preserve and strengthen a vital agricultural sector. We continue to be USDA's window to the world and provide a unique service in the Department for U.S. farmers and their neighbors worldwide.

## OFFICE OF PUBLIC AFFAIRS

## STATEMENT OF ALI WEBB, DIRECTOR OF PUBLIC AFFAIRS

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you to discuss the fiscal year 1994 request for the Department of Agriculture's Office of Public Affairs.

Our mission is very straightforward. The Office of Public Affairs has the responsibility to communicate the policies, programs and activities of USDA to the public. The channels of communication, the medium and methods of information delivery, the role of media and interest groups are the challenging part of what we do with our budget dollars.

Under President Clinton's directive to "re-invent government", the Office of Public Affairs is a full participant in Secretary Espy's reorganization plans for USDA. In fact, I am confident that the Office of Public Affairs will lead the way to the new USDA created by Secretary Espy.

The Secretary's charge to the Office of Public Affairs is to create an office which communicates clearly and consistently with our audience in the most cost-effective way possible.

To that end, we are examining every channel and method of communication we now use, from the books we publish, like the Yearbook of Agriculture, to the television programming we produce three times a week and the range of information products in between. It is an exciting time of change as we begin to streamline the Department's communications structure.

In the middle of meeting the challenge of creating a new Office of Public Affairs, we are performing our mission every day. To coordinate the communications of 42 separate agencies and offices, the Office of Public Affairs has budgeted 156 staff years. Our staff works out of the main USDA headquarters in Washington, D.C.

The Office of Public Affairs has state of the art, sophisticated communications ability. In addition to the traditional delivery systems of the printed press release, we have the AGFAX system which allows us to reach out electronically to news organizations. We have production facilities for radio and television products which are competing in today's electronic world and global village.

One of the most interesting parts of the Office of Public Affairs is the Video and Teleconference Division which has pioneered the use of satellite technology in directly reaching consumer and farmer clientele and field staffs with critical information in all 50 states. For example, a national meeting of the Cooperative Extension system held via satellite originated from USDA's studio and included live guests from studios in Denver, CO, and Madison, WI. Presenters from all three sites were linked in the broadcast with live audio questions from viewers throughout the nation. Using satellite technology allows USDA to compete in the time sensitive information marketplace.

We have the capacity to send our information around the country and to bring together people from around the world through our teleconferencing facility. But, this is only one of the top notch service divisions at the Office of Public Affairs.

We use every medium available to communicate to our audiences. I say audiences because, as you know, the Department touches many people from the farmer in the field to the food stamp recipient to the child in the school cafeteria. The multiplicity of audiences require a variety of OPA services. We design our products to reach specific target audiences.

For example, some may get their news primarily from trade publications so we provide specific information to that information channel. Much of what we do at USDA is of interest to the general public and we communicate through traditional general interest sources like newspapers, radio and television news.

—With "USDA Radio Newslines," we have a 24-hour radio service which carries five to ten current news items. Radio stations access the playback machines via telephone, recording the material for later use in their broadcasts. A number of agricultural networks of up to 150 affiliated stations each are regular users of the service.

—With "USDA Television News Service" we provide news actualities. The items are distributed by satellite on Thursday evening and Saturday morning, and repeated Monday morning. Feature subjects are wide ranging and include topics such as marketing, consumer interests, rural development, nutrition, conservation, forestry, environment, economics, production agriculture and international trade.

—In order to keep in step with changes and improvements in technology, our Photography Division can now convert photographs, transparencies, and negatives



to digital images capable of being stored as digital files, and transmitted via modem to client agencies, the media, or to a satellite for greater media access.

These examples demonstrate that the Office of Public Affairs clearly has the technology to fulfill our interactive information mission. With a successful reorganization, we will use our technology even more effectively.

I invite the members of this Committee to come and visit the teleconferencing studio, design shop, news or television division to see first-hand the kind of communication tools we have at USDA. They belong to you, and your constituents. Although we use the media as a primary channel to reach the public, we also reach out to particular interest and trade groups as part of our public liaison function. A separate and very important unit under Public Affairs is Intergovernmental Affairs which is charged with coordination of our programs with local, state and tribal governments.

#### FISCAL YEAR 1994 BUDGET REQUEST

The Office of Public Affairs is requesting \$9,553 million for fiscal year 1994. This represents an increase of \$160,000, or 1.7 percent over our fiscal year 1993 appropriation.

This increase is composed of \$168,000 for annualization of the fiscal year 1993 pay raise and \$49,000 for non-pay inflation; partially offset by a decrease of \$56,000 for administrative efficiency and \$1,000 for the FTS reduction.

We are actively engaged in a process to do more with what we now have. We fully expect that our reorganization efforts will allow us to enhance information delivery to the American public while reducing total costs. We will keep the Congress informed of these reorganization efforts within USDA.

This concludes my statement, Mr. Chairman. I will be pleased to respond to any questions.

#### OFFICE OF THE GENERAL COUNSEL

##### STATEMENT OF JAMES MICHAEL KELLY, ACTING GENERAL COUNSEL

#### INTRODUCTION

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to discuss an overview of the Office of the General Counsel and our fiscal year 1994 appropriation request.

I am joined by Bob Franks, Deputy General Counsel; William Perrelli, Director, Administration and Resource Management; Charlene Buckner, our Finance and Budget Analyst; and of course, Mr. Dewhurst.

#### MISSION OF THE AGENCY

The Office of the General Counsel (OGC) is responsible for providing legal advice and services to the Secretary of Agriculture and other officials of the Department of Agriculture and for all programs, operations, and activities of the Department's 42 agencies, staff offices and corporations.

The mission of OGC is to determine legal policy, provide legal services, and direct the performance of all legal work for the Department throughout its Washington and field locations. The General Counsel is the principal legal advisor to the Secretary of Agriculture and is responsible for providing legal advice and representation for the Department.

#### SIZE

As of September 30, 1992, OGC had 406 employees of which 377 were permanent full-time employees and 29 were other employees. There were 178 permanent full-time employees and 9 other employees located in Washington, D.C., and 199 permanent full-time employees and 20 other employees in the field. Our full staffing levels are approximately 260 attorneys and 146 support staff.

#### ORGANIZATION

OGC's services are provided through 11 Divisions in Washington, 22 field offices, and 8 client host or other special work sites. The headquarters for OGC is located in Washington, D.C. The Office is directed by a General Counsel, a Deputy General Counsel, four Associate General Counsels, and 11 Assistant General Counsels, and

a Director for Administration and Resource Management. We have attached an organizational chart for your information that shows the overall structure of the office.

The headquarters legal staff is divided into four areas: (1) Regulatory and Marketing; (2) International Affairs, Commodity Programs and Food Assistance Programs; (3) Community Development and Natural Resources; and (4) Legislation, Litigation, Research and Operations.

#### FIELD STRUCTURE

OGC has five regional offices, each headed by a Regional Attorney, and 17 branch offices headed by an Associate or Assistant Regional Attorney. The locations of these offices are listed on the attached organizational chart. Currently, OGC has 8 employees working in the offices of client agencies, U.S. Attorneys, or in other locations. These sites include Fresno and Sacramento, California; Mt. Holly, New Jersey; St. Paul, Minnesota; Stevens Point, Wisconsin; Gainesville, Florida; Greenwood, Mississippi; and Indianapolis, Indiana. We also expect shortly to have an attorney in Boise, Idaho.

OGC's field offices provide legal advice and services with respect to all matters arising from the administration of programs by agency field staff. A majority of the Department's litigation is completed at the field level through direct referrals to U.S. Attorneys, without involvement of the Washington office. OGC field-level legal services are provided primarily to the Agricultural Stabilization and Conservation Service, Farmers Home Administration, and the Forest Service. Other Departmental agencies, including the Agricultural Marketing Service, Animal and Plant Health Inspection Service, Federal Crop Insurance Corporation, Food and Nutrition Service, Soil Conservation Service, and other agencies, also receive legal services from OGC field offices.

#### STATUS OF FISCAL YEAR 1993 FUNDS

In fiscal year 1993, Congress appropriated \$24,554,000, which is the same amount that was appropriated in fiscal year 1992. We also expect to receive approximately \$1,107,000 for providing legal services to Department user fee programs. As you may recall, our budget request last year was reduced by this amount, with the reduction to be offset by reimbursements from the user fee programs. The amount of available funds for fiscal year 1993 has necessitated the continuation of certain austerity measures that were implemented in fiscal year 1992 and the implementation of some new measures. Some of the austerity measures include significant reductions in discretionary funding for travel, training, supplies, and equipment; delaying promotions for 120 days after approval; except in the case of emergencies, not replacing either legal or support staff as positions are vacated; reducing the use of automated legal research services; cancelling the attorney recruitment program; and eliminating cash awards and Senior Executive Service bonuses, rank awards and pay level adjustments. Continued implementation of OGC's database contract has also been suspended.

Through these initiatives, at the mid-year point in execution, we believe that OGC will be able to execute a balanced program for fiscal year 1993 without implementing any additional austerity measures. Every effort is being made to ensure that the current fiscal crunch will not unduly affect the quality of service we render to the Department or materially disrupt operations and morale within OGC.

#### CURRENT ACTIVITIES AND ISSUES

We understand that the Subcommittee would like us to address some of the current activities in which we are involved, as well as current issues. Much of OGC's workload is on-going in the sense that we continue to review regulations, prepare civil and criminal cases to be filed by the Department of Justice, defend against lawsuits filed against the Department, prosecute administrative cases, provide both formal and informal advice, and draft proposed legislation. While the names and issues change, the basic legal services we provide are essentially the same over time. However, I would like to highlight a few areas.

Because of changes in laws and changes required by court decisions, the Department is continuously amending its regulations. Some that we have been working on recently in the natural resources area and that are on-going include regulation changes relating to appeals of Forest Service decisions, land management planning regulations, cancellation of timber sales contracts for the protection of sensitive, threatened or endangered species, timber exports, and non-commercial use of National Forest System lands. In the regulatory area some of the significant regulation changes we have been addressing include those relating to pesticide recordkeeping

requirements, pine shoot beetles, biotechnology, and various aspects of nutrition labelling. Extensive legal advice has been and will continue to be provided in connection with the Department's reappraisal of the meat and poultry inspection systems.

In the area of agricultural credit, we have been involved in developing regulations which implement new rural economic development programs, such as the Rural Electrification Administration's Distance Learning and Medical Link Program, and which revise existing programs, such as REA's Discounted Prepayment Program. We are also providing legal assistance in connection with development of the Farmers Home Administration beginning farmer operating loan and farm ownership downpayment loan programs.

Some pending litigation involves challenges to Department regulations. These cases involve labelling of mechanically separated meat and poultry, health labelling of meat, and Animal Welfare Act regulations. Other major litigation includes, of course, injunctions against timber sales because of the northern spotted owl, water rights adjudications, food stamp litigation, including the settlement of outstanding Quality Control claims against the states, and numerous bankruptcy matters.

The office also continues to provide legal services in connection with various international trade issues. These include questions arising in connection with agricultural provisions of the Uruguay Round of multilateral trade negotiations under the auspices of the General Agreement on Tariffs and Trade, the proposed North American Free Trade Agreement—which will also necessitate the drafting of legislation to implement various aspects of that proposal—and the United States-Canada Free-Trade Agreement.

Under the Clinton Administration, there undoubtedly will be new initiatives and actions that will likewise require OGC involvement. One example already is the decision by Secretary Espy to suspend foreclosures involving Farmers Home Administration farmer program borrowers. OGC has spent considerable time advising the Secretary's office and FmHA on the implementation of that initiative. We also expect to be heavily involved in Pacific Northwest wildlife and forestry issues.

With our appropriation essentially the same for the last two years and for the coming year, like most other agencies we have had to find ways to reduce spending. One of the issues arising from that relates to our contract to implement a standardized nationwide correspondence control and case tracking and reporting system. We have not been able to proceed beyond the installation of a pilot system in some of the Washington offices and 2 field offices. Since the current systems that most of our offices use to track their data have far surpassed their life expectancy, we will be faced shortly with a decision of replacing these obsolete systems with standalone database software applications and forgoing further implementation of the nationwide pilot system. We will be giving further consideration to this matter in the near future.

#### FISCAL YEAR 1994 BUDGET REQUEST

For fiscal year 1994, OGC is requesting \$25,045,000 in direct appropriations. This request represents a net increase of \$491,000 over the fiscal year 1993 appropriation. Of the requested increase, \$502,000 is for the annualization of the fiscal year 1993 pay raise. OGC's request was also increased by \$55,000, which reflects a 2.7 percent increase for non-salary costs; however, that increase was offset by a \$59,000 reduction, which reflects a 3 percent decrease for administrative purposes, in keeping with the President's Executive Order to promote the efficient use of resources. OGC's request was also reduced by \$7,000 for FTS2000, due to anticipated lower price.

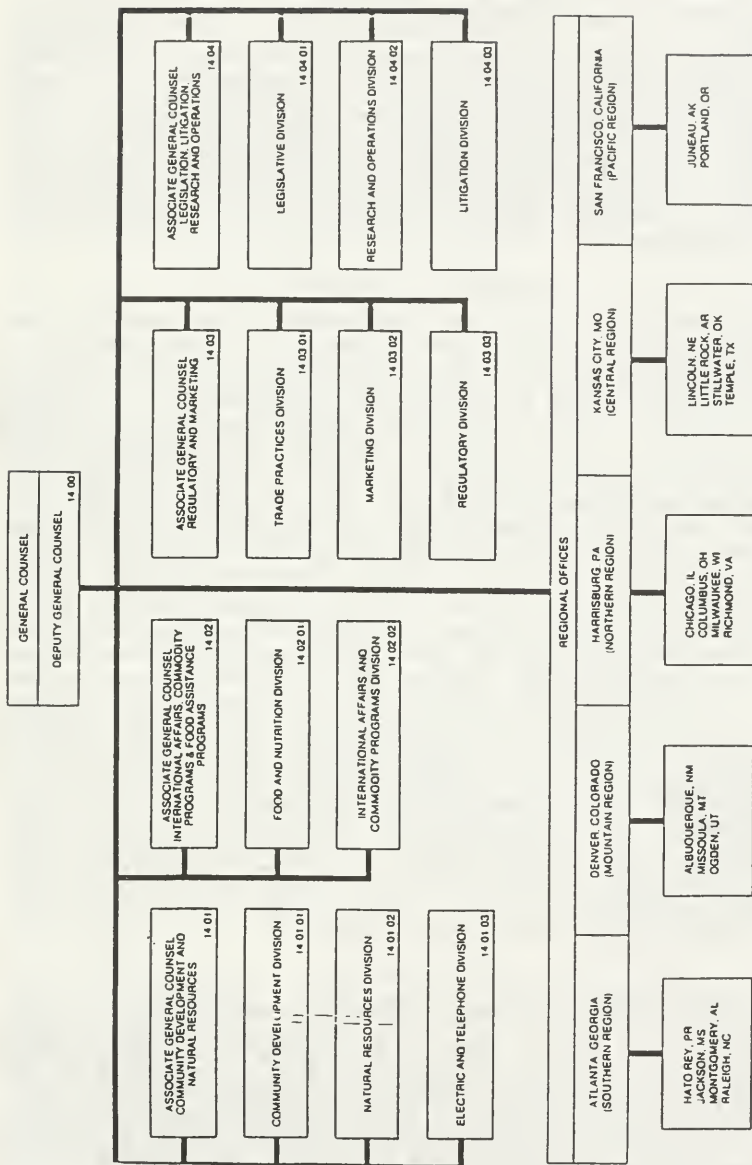
Mr. Chairman, we realize that in these times of huge federal deficits and tight budgets all agencies must tighten their belts and learn to provide more with less. It goes without saying that we are willing to do our part, and we have in fact adopted a number of cost-saving measures in both fiscal year 1992 and fiscal year 1993. However, the overall amount of legal work never seems to decrease, and Departmental agencies are continually seeking new or expanded legal services. We have worked directly with several of our client agencies to address their additional needs for more lawyers through reimbursable agreements. However, since OGC is a staff agency and 91 percent of our budget consists of funds for personnel compensation, we have no way to absorb cuts below our request without placing a severe strain on the office and adversely affecting daily operations. Therefore, the entire amount of our budget request is essential to maintain our current, existing staff and levels of service.



## CLOSING

That concludes my statement, Mr. Chairman. We appreciate the support this Committee has given us in the past. I will be happy to answer any questions you and the Committee members may have at this time. Thank you.





THE MISSION OF THE OFFICE OF THE GENERAL COUNSEL IS TO DETERMINE LEGAL POLICY AND DIRECT THE PERFORMANCE OF ALL LEGAL WORK BY THE DEPARTMENT

SUPPLEMENT CHART DATED SEPTEMBER 20, 1988

## OFFICE OF THE SECRETARY AND DEPARTMENTAL ADMINISTRATION

## STATEMENT OF CHARLES R. HILTY, ASSISTANT SECRETARY FOR ADMINISTRATION

Mr. Chairman and members of the Subcommittee, I am pleased to discuss the fiscal 1994 budget request for Department level and Department-wide USDA activities. I will be covering appropriations requests for Departmental Administration, GSA Rental Payments and Building Operations, Advisory Committees, Hazardous Waste Management, the Working Capital Fund, and the Office of the Secretary. With me today to ensure that you are fully informed and that all your questions are answered are Irwin T. David, the Deputy Chief Financial Officer, Larry Wilson, the Director of the Office of Finance and Management, and Connie Gillam, the Budget Officer for Departmental Administration, and Steve Dewhurst, the Department's Budget Officer.

## DEPARTMENTAL MANAGEMENT

The Department is responsible for the broadest range of program activities of any civilian Federal department. We serve our "customers" through a diverse family of USDA's programs, touching all citizens—farmers, ranchers, producers, consumers, and children—daily in every state and county. These programs must be managed in an efficient, effective, and fair manner. It is the responsibility of the Departmental Staff Offices to help the Secretary, the Under and Assistant Secretaries, and agency policy officials make sure USDA's administrative management program meets these goals. The Departmental Administration staff activities are funded through the Departmental Administration and related appropriations. These activities cover policy related and operational areas ranging from human resources, civil rights, equal opportunity, financial management, information technology management to the operation of the physical facilities in the USDA headquarters complex.

Before I describe the current activities within Departmental Administration, I would like to take a moment to share with you some of the philosophy and emphasis Secretary Espy has brought to the Department, particularly as it affects Departmental Administration. Secretary Espy is interested in management improvement and has taken steps outlined in the 1994 budget request to guarantee continued proficient management at USDA. Secretary Espy is committed to the idea of "one stop shopping" for the customers of USDA. He does not want American farmers chasing all over the county or the State to obtain vital information from USDA. He does not want them buried in red tape and paperwork. This belief is reflected in initiatives such as the Info Share program, under our Office of Information Resources Management, which will consolidate three separate field office information systems to provide "one stop shopping" to farmers nationwide. Info Share is an example of programs under development at the Department where innovative new technologies and ideas are being invested to better serve our program recipients, provide accurate, timely and concise performance information to empower program decisionmakers at every level and reduce administrative costs. Departmental Administration has a large part to play in achieving those goals for the American farmer. I would like now to give you some of the details.

## CURRENT ACTIVITIES

USDA's central Office of Personnel, or OP, the first personnel office in government, was established in 1925. It is the central policy, oversight and guidance office for all USDA agencies' personnel offices. OP also provides direct personnel support to the Office of the Secretary, Departmental Staff Offices, the General Counsel, and the Office of the Inspector General. For fiscal year 1993 about 26 percent of the Departmental Administration appropriation is used to fund OP's activities. OP's plans for fiscal year 1993 focus on expanding and improving the diversity of the USDA workforce, developing competent leadership for the future, and improving the quality and effectiveness of Departmental personnel systems and data bases.

The Office of Finance and Management, or OFM, is the central oversight and guidance activity within the Department for financial management systems, accounting, Federal assistance, management controls audit resolution, management and productivity improvement, occupational safety and health, and for management of the National Finance Center (NFC). The Director is the Department's Management Improvement Officer and Comptroller of the Working Capital Fund. OFM provides support to the Chief Financial Officer in carrying out provisions of the Chief Financial Officers Act. In addition, OFM provides budget, accounting and fiscal services for the Office of the Secretary and departmental staff offices. Our Budget Officer, Ms. Gillam, at the table with me today, is located in this staff office. Ap-

proximately 17 percent of the Departmental Administration appropriation funds OFM activities. Major initiatives for fiscal year 1993 are the implementation of the provisions of the Chief Financial Management Officers Act, the improvement of the central accounting and administrative systems, and strengthening accountability for USDA financial and management oversight and improvement efforts.

The Office of Operations, or OO, is the housekeeping organization within Departmental Administration. It provides Departmental policy oversight and guidance or management of real and personal property, procurement, contracts, transportation, supply, motor vehicles, aircraft, energy conservation and recycling programs. OO also is responsible for Department-wide information systems that monitor agency activities in these areas. OO provides agencies in the Washington, D.C. area with certain centralized administrative services, including headquarters facilities management, mail processing, acquisition and procurement services, distribution of supplies, forms, and publications, copy and reproduction services, shipping and receiving, imprest funds, warehouse services, and support of the Office of the Secretary. Funding OO's activities takes approximately 12 percent of the Departmental Administration appropriation. A separate appropriation of \$25.6 million that finances the operation and maintenance of the headquarters complex will be discussed later. For fiscal year 1993, OO has established initiatives to assist USDA agencies improve program accessibility to persons with disabilities and recycle reusable materials. In addition, OO is working to improve the efficiency and effectiveness of its operations through improvement in its organization structure and increased automation.

The Office of Information Resources Management, or OIRM, is our central information management and information technology systems planning, acquisition, and oversight arm. Through its data centers, it provides USDA agencies with direct ADP services. Twenty-three percent of the Departmental Administration appropriation supports OIRM's fiscal year 1993 activities. Two major efforts within OIRM merit special mention. The Agency Liaison Officer or ALO program is designed to improve Departmental oversight and coordination of agency IRM planning, budgeting, technology implementation and assessment, to provide a primary point of contact between the agencies and OIRM, and to provide an interface with OMB and other external oversight agencies. This critical oversight program is aimed specifically at guiding the development of USDA information systems to new levels of excellence in program delivery and cost effectiveness. The USDA Info Share program I introduced earlier, is designed to simultaneously reduce the amount of red tape and paperwork farmers face when doing business with USDA and improve public access, provide more accurate and timely performance data to program decisionmakers, and reduce the life cycle costs of the next generation of USDA information systems. Info Share illustrates our commitment to providing responsive "one stop shopping" services to program recipients, promoting information sharing to improve program management, and reduce the life cycle costs of USDA's information systems.

The Office of Advocacy and Enterprise, or OAE, is the Department's central civil rights and equal opportunity oversight arm. OAE programs and activities account for approximately 14 percent of the Departmental Administration appropriation. During fiscal year 1993, OAE will concentrate on eliminating discrimination in the delivery of USDA programs, improving the employment opportunities for minorities and women in USDA programs, and improving the Department's minority and small business procurement performance.

In the administrative law area, the Office of Administrative Law Judges, or OALJ, holds hearings and renders decisions on appeals of administrative decisions taken in several USDA agency program operations. The Judicial Officer, or JO, renders final administrative decisions on appeals to the Secretary. OALJ and JO account for 6 percent of the Departmental Administration appropriation. Their main goal for fiscal year 1993 is to render fair and impartial decisions in a timely manner.

Emergency Programs, or EP, formerly part of the Office of Personnel, is a separate budget activity beginning in fiscal year 1993 to emphasize its importance as the Department's central contact point for emergency programs and emergency preparedness both within USDA as well as with other Federal, State and local agencies, and international agencies. This activity accounts for approximately 1 percent of the Departmental Administration appropriation. During fiscal year 1993, EP will develop plans and issue necessary guidelines and handbooks that will facilitate USDA agency planning, preparation for and response to disasters and emergency situations.



## DEPARTMENTAL ADMINISTRATION BUDGET REQUEST

The budget request for Departmental Administration for fiscal year 1994 is \$27,298,000, an increase of \$1.5 million above the fiscal year 1993 current estimate of \$25,798,000. I know that in this era of deficit reduction and down-sizing of Federal programs it is difficult for this Committee to support budget increases, especially for staff organizations. However, I clearly see compelling reasons to support this increase. Departmental staff offices are small, labor intensive activities. Over a third of this requested increase, \$512,000, is for annualization of 1993 pay costs. The absorption of pay costs and inflation required in previous years makes it impossible to absorb further pay costs without harm to the oversight and operation of the Department's administrative management program activities.

The remaining \$988,000 are primarily to strengthen financial management and financial systems to meet the requirements of the CFO Act and to expand Departmental information technology activities supporting farm service, research, natural resources, food safety and inspection programs, as well as other USDA agency programs providing direct services to consumers, farmers, ranchers, and other USDA clientele through the Info Share program.

The increase for financial management will be invested in improving USDA's financial management systems to provide modern, up-to-date systems that have the internal control mechanisms in place to prevent the manipulation of programs for fraudulent purposes, to assure that the award of loans, deficiency payments and other forms of aid go to those that qualify and that program qualifications are upheld.

Farmers and all other USDA program recipients should be able to deal with a Department that is efficiently managed and responsive to their needs. They should not be overburdened with government forms and red tape. Other parts of the increase will be used to design and acquire automated data systems under Info Share that are user friendly, integrate data bases, support requirements across several agencies, encourage one-stop shopping, and provide the Congress, the oversight agencies, and USDA management real time data on the cost of our delivery of services, and measures of program success.

## RENTAL PAYMENTS AND BUILDING OPERATIONS

The larger of these two appropriations, Rental Payments, finances a portion of the Department's payment to the General Services Administration for space rental and related costs. In fiscal year 1994, the Department requests \$50,503,000 for Rental Payments to pay for its space. This increase covers GSA rental rate increases in selected geographic regions applied to our existing space inventory. The request also provides that funds for non-recurring repairs remain available until expended to accommodate the lengthy contracting process associated with these repairs and the extent of the work to be performed.

The Building Operations and Maintenance appropriation funds the Departmental staff and support services to operate and maintain the downtown Headquarters complex. For fiscal year 1994 the Building Operations and Maintenance request is \$25,581,000, a net decrease of \$119,000 from fiscal year 1993 level of \$25,700,000. This change reflects increases of \$569,000 for non-salary inflation and \$104,000 for annualization of the fiscal year 1993 pay raise which are offset by a decrease of \$792,000 to meet deficit reduction targets.

## ADVISORY COMMITTEES

In the fiscal year 1983 Appropriations Act, the Congress established a single appropriation for USDA Advisory Committees other than those funded from the Forest Service appropriation or user fees. The fiscal year 1994 USDA Advisory Committee request of \$952,000 is the same level as that appropriated for Advisory Committees in fiscal year 1993. Executive Order 12838 calls for a one-third decrease in the number of discretionary advisory committees and justifications for continuation of all statutory and discretionary committees. We are currently conducting the review that will accomplish the President's directive. Once the review is completed you will be provided a revised list of the committees proposed for funding during fiscal year 1994.

## HAZARDOUS WASTE MANAGEMENT

USDA requests \$16,000,000 for the Hazardous Waste Management program in fiscal year 1994. This level of funding will allow USDA's agencies to establish a min-



imum program level and to initiate cleanup activities at only the most critical USDA sites with problems caused by past uncontrolled disposal practices.

The safe disposal of hazardous waste materials remains a serious challenge to the Nation. Past disposal methods often created serious environmental problems that now require costly corrective actions to remedy. The fiscal year 1994 budget continues USDA's program efforts to comply with the Comprehensive Environmental Response, Compensation and Liability Act and the Resource Conservation and Recovery Act.

Resources from the central hazardous waste management fund are allocated to the Departmental agencies according to priority needs. Funds are available until expended. Although there have been past problems in obligating funds in the year in which they were made available, we have improved oversight of the account to prevent this from recurring. For fiscal year 1992, we obligated over 95 percent of the \$39 million available. We expect to do even better this fiscal year.

The passage of the Federal Facilities Compliance Act could have a severe impact on the Department's program. This Act establishes that Federal facilities do not have sovereign immunity from state enforcement of state environmental laws and are obligated to pay fines and penalties assessed by states. This may mean that a significant portion of our funding could be needed to satisfy state enforcement actions rather than to complete planned cleanups. Although we understand and accept the intent of the Congress in enacting this law, it could result in major delays in the Department's cleanup efforts.

#### WORKING CAPITAL FUND

Our Departmental Working Capital Fund—WCF for short—was established in 1943. In the 50 years since its establishment, it has served as a financing mechanism for the acquisition of large-scale assets, such as mainframe computers, and for the provision of centrally-managed administrative services. The Fund allows users to take advantage of the economies of scale that come with centralized management. It also makes affordable to smaller USDA agencies, services that would be much more expensive if those agencies had to provide them on their own. Further, the Fund provides the means to acquire and finance large scale procurement, recovering the costs through depreciation charges to users over the useful life of the asset acquired.

This year, the Fund supports 21 activities located in 6 Departmental staff offices—Finance and Management, Public Affairs, Information Resources Management, Operations, Personnel, and Executive Secretariat. Except for the National Finance Center in New Orleans, Louisiana; the National Computer Center/Mainframe office in Kansas City, Missouri; the National Computer Center/Network Management Services and Applications Design offices in Fort Collins, Colorado; and the Consolidated Forms and Publications Distribution Center in Landover, Maryland, which houses Central Supply Stores, Central Supply Forms, and Central Excess Property Operation warehousing activities, all other WCF activities are located in Washington, D.C.

The current estimate of fiscal year 1993 operating costs is approximately \$173 million. Capital acquisition funds add another \$19 million. The total operating cost figure reflects the growth in the volume of goods and services financed through the Fund over the past several years. The true measures of efficiency in the Fund—unit costs of service—show that this increased volume of service is being provided at a reduction in unit costs over the same period.

As an example, the payroll/personnel system operated by our National Finance Center and the IBM system mainframe computing operation in Kansas City are the two largest services supported by our Working Capital Fund. This year they will account for approximately 43 percent of estimated total costs. Efficiencies achieved in these areas, measured in the unit costs that users pay for service, will have a significant impact on total Fund productivity. We anticipate that the unit cost of payrolling an employee through our payroll/personnel system will be more than 13 percent below the fiscal year 1990 level. Unit costs for computer processing services on IBM equipment at our National Computer Center, measured in dollars per central processing unit minute, will be reduced by about 32 percent over the same period.

At a time when the President is asking those of us overseeing administrative services to reduce costs, I am pleased with what has been accomplished through our WCF. Just as we have programs aimed at providing a responsive menu of services and "one stop shopping" to better serve farmers, WCF activities provide USDA and other federal agencies with responsive and extremely cost effective support services.

I am committed to making further contributions to help achieve the President's cost reduction goals.

#### OFFICE OF THE SECRETARY

The offices of the Secretary provide policy oversight and guidance for the Department and maintain relationships with agricultural organizations and others in the development of farm programs. OSEC also oversees special projects that are conducted at the behest of the Congress. These projects include short-term studies, investigations, and research on matters affecting agriculture or the agricultural community.

OSEC currently is made up of the Secretary, Deputy Secretary, two Under and seven Assistant Secretaries and their staffs. OSEC has a total of 86 staff years. Twenty-two are in the Immediate Office with five each in the Deputy and Under Secretaries' offices. The Assistant Secretaries for Economics, Science and Education, Natural Resources and Environment, and Food and Consumer Services each have five staff years, Administration eight, Congressional Relations 15, and Marketing and Inspection Services six. All are located in Washington, D.C. The Office of the Secretary's funds for fiscal year 1993 are sufficient to carry out daily operations, due mainly to the lapse of filling vacancies created by the change in Administration.

Each OSEC office is financed from a separate appropriation—eleven separate appropriation accounts in all—most less than \$600,000 and 6 FTE's. The restrictions placed on the flexibility of the Secretary to assign and redirect resources to meet top level USDA program oversight and direction needs or to meet an emergency limit his ability to establish priorities and shift resources necessary to meet the changing conditions of American agriculture. In the interest of efficiency and flexibility, we again ask that these accounts be combined into a single appropriation.

Thank you for the opportunity to speak today about our plans. I would be pleased to respond to your questions.

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#### PACKERS AND STOCKYARDS ADMINISTRATION

##### STATEMENT OF CALVIN W. WATKINS, ACTING ADMINISTRATOR

Mr. Chairman and Members of the Subcommittee: I appreciate the opportunity to appear before the Subcommittee to discuss the programs of the Packers and Stockyards Administration (P&SA).

##### MISSION OF THE AGENCY

The Packers and Stockyards Administration is an Agency of the Department of Agriculture, with primary responsibility for administering the provisions of the Packers and Stockyards Act. Our mission is to assure fair business practices and competitive markets for livestock, meat, and poultry. The programs of the Agency are designed to foster fair and open competition, guard against deceptive and fraudulent practices, and provide payment protection in the marketing of livestock, meat, and poultry.

In addition to its responsibilities under the Packers and Stockyards Act (P&S Act), the Agency administers the Clear Title provisions contained in Section 1324 of the Food Security Act of 1985.

##### FISCAL YEAR 1994 BUDGET REQUEST

The budget request of the Packers and Stockyards Administration for fiscal year 1994 is \$12,203,000. This includes an increase of \$207,000 over fiscal year 1993 funding. It consists of an increase of \$203,000 for annualization of fiscal year 1993 pay costs and an increase of \$80,000 in non-salary costs. The request reflects a reduction of \$71,000 in administrative expenses and a decrease of \$5,000 for FTS2000 funding.

##### SCOPE OF OPERATIONS

The production and marketing of livestock, meat, and poultry are important to American agriculture and have a significant impact on the Nation's economy. In 1992, cash farm receipts of livestock and poultry were \$63 billion, approximately 37 percent of total receipts. The wholesale value of shipments by the red meat and poultry industries in 1992 has been estimated by the Department of Commerce to be approximately \$96 billion.

At the close of fiscal year 1992, there were 1,581 stockyards; 7,296 market agencies/dealers and 2,320 packer buyers registered with the Agency to engage in the livestock marketing business. There were also approximately 6,500 slaughtering and processing packers and an estimated 6,900 meat distributors, brokers, and dealers operating subject to the provisions of the P&S Act. Of the slaughtering packers, 561 were bonded. In addition, packers purchasing over \$500,000 worth of livestock were required to file annual reports with the Agency. There are an estimated 275 poultry firms subject to the P&S Act.

#### ORGANIZATION OF THE AGENCY

##### PROGRAMS UNDER THE P&S ACT

The Agency's programs are divided into two major program areas under the P&S Act: Livestock Marketing and Packer and Poultry. In these areas, the Agency makes every effort to effectively respond to changing conditions and adapt to an ever-changing industry.

The Agency has 12 regional offices located throughout the United States. These offices have 12 to 15 employees each and consist mainly of auditors, marketing specialists, scales and weighing specialists, and clerical support personnel.

#### CURRENT ACTIVITIES

##### PAYMENT PROTECTION

One of the major concerns of the Agency is providing payment protection to livestock and poultry producers. It is particularly important to the stability of the farm economy that producers receive full payment when due.

To address this concern, the Agency continues to give special priority to the financial area. During fiscal year 1992, 11 auction markets failed financially owing \$567,000 for livestock, \$512,000 of which was subsequently recovered from bonds and other sources. For livestock dealers and order buyers, there is a different story. During the last fiscal year, 23 dealers/order buyers failed owing \$2.1 million for livestock, of which only \$608,000 was recovered, leaving \$1.5 million unpaid. Dealer failures continue to represent a significant amount of unrecovered losses in the livestock marketing chain.

Producers must have assurances of prompt and full payment in the marketing of their products and a hope of a fair return in an open and competitive market place to make the long-term commitment and investment necessary for raising livestock and poultry.

The statutory trust provisions of the P&S Act have been very successful in recovering losses as a result of failures by meat packers and live poultry dealers. During fiscal year 1992, livestock producers were paid \$2.7 million by 15 packers under the statutory trust provisions, bringing the total received by livestock producers to over \$44.3 million under the trust provisions since the P&S Act was amended in 1976. In addition, producers received over \$260,000 from packer bonds in fiscal year 1992.

During fiscal year 1992, poultry producers were paid \$3.1 million by 2 poultry processors under the statutory trust provisions. Since the P&S Act was amended in 1987, poultry producers have received over \$3.9 million under the poultry trust provisions.

#### LIVESTOCK MARKETING

The primary responsibilities under the Agency's livestock marketing programs are to ensure prompt and full payment to livestock producers, prevent unfair trade practices, and foster open competition by stockyards, market agencies, and dealers. The bonding, solvency and custodial account requirements are given top priority to provide maximum payment assurance to livestock producers.

Because of increasing concern about the integrity of custodial funds, the Agency continues to emphasize frequent on-site audits of all custodial accounts. This program helps identify market agencies that are misusing custodial funds and those that are short in the custodial account. Three years ago, we implemented a custodial audit program designed to assure all custodial accounts are audited on a regular basis.

In addition to the payment protection responsibilities, the livestock marketing program places a high priority on the investigation of fraudulent practices. Emphasis is given to investigation of false weighing, weight and price manipulation, switching of livestock, and misrepresentation of the source, origin, and health of livestock.



Competition in livestock marketing continues to be a matter of concern, since competition for livestock should be open and free of restrictions. Any practice, agreement, or understanding that excludes potential buyers from bidding in open competition is considered a restraint on competition. Examples of such practices include apportioning of territories, price agreements or arrangements not to compete, and payoffs or kickbacks to buyers. Information or complaints that indicate a possible restriction of competition are investigated on a priority basis.

#### PACKER AND POULTRY

The primary responsibilities of the packer and poultry program are to assure prompt and full payment to livestock and poultry producers, foster open and free competition in the procurement of livestock by packers, and prevent noncompetitive practices in the marketing of meat and meat products. High priority is given to assuring payment for livestock through bonding, solvency tests, and the packer trust, which has helped reduce losses to producers selling livestock on a cash basis to slaughtering packers. The poultry amendments to the Act give similar protection to poultry growers and producers through statutory trust and payment provisions.

The substantial statutory trust payments to poultry producers in fiscal year 1992 demonstrate the importance and effectiveness of this program.

#### SCALES AND WEIGHING

The major emphasis of the Agency's scales and weighing program continues to be directed to weighing investigations. Economic and competitive pressures on individuals and firms engaged in livestock marketing contribute to falsifying weights as a way to improve income. During fiscal year 1992, 12 percent of the Agency's 503 formal weighing investigations disclosed false or questionable weighing. The percentage of these cases has remained relatively constant for the past few years.

In addition to conducting weighing investigations, the Agency actively participates with the National Conference on Weights and Measures and the National Institute of Standards and Technology in the development of standards, specifications, and tolerances for livestock and carcass scales.

The Agency also develops training programs and provides instruction to State weights and measures officials, private scale testing companies, and scale users. During fiscal year 1992, the Agency's 4 formal scale testing workshops provided training for 38 weights and measures and industry personnel. Since this training began in fiscal year 1989, 14 formal scale testing workshops have provided training for 221 weights and measures and industry personnel.

#### MEAT MARKETING

Meat brokers, dealers and distributors continue to receive attention in the Agency's investigations of illegal inducements such as commercial bribery and illegal brokerage.

Payoffs to chainstore meat buyers eliminate competition based on price, quality and service. P&SA maintains regular contact with industry members to obtain leads on illegal conduct. The Agency also works closely with the FBI, the IRS, and the Postal Inspection Service. In the area of bait-and-switch selling, the Agency works with State and local officials. This approach has resulted in fostering good working relationships as well as preventing consumer losses.

#### MEAT PACKER CONCENTRATION AND CAPTIVE SUPPLIES

Meat packer concentration, feeding, and forward contracting continue to be a matter of concern, especially among livestock producers. Concentration accelerated during 1987 and has continued since that time. The top 10 slaughterers of steers and heifers during calendar year 1985 merged into 5 by the end of 1987. These developments, along with the moves on the part of meat packers to gain captive supplies through feeding and forward contracting, have prompted the Agency to review industry structure and market performance on a continuing basis.

The four largest firms accounted for 73 percent of total commercial slaughter of steers and heifers in 1991 according to our preliminary data. In sheep and lambs, the four largest firms slaughtered 77 percent of the 1991 commercial slaughter. The four-firm concentration ratio for hog slaughter rose to 42 percent in 1991.

Under the Hart-Scott-Rodino Act, firms, including meat packers, are required to submit pre-merger notification information to the Department of Justice and the Federal Trade Commission. P&SA provides analyses, counsel, and information on



industry structure, concentration, and other factors to the Department of Justice and the Federal Trade Commission concerning proposed mergers of meat packers.

At the present time, there is a lack of consensus among livestock producers for the need or advisability of any government involvement to alter the present concentration and integration trends. A 1990 GAO study on meat packer concentration concluded that empirical studies of market concentration in the beef packing industry did not lead GAO to draw any overall conclusions regarding the impact that market concentration had on prices packers paid for steers and heifers in the 1980's. Industry analysts and experts interviewed during the study said that recent packer concentration had not lowered steer and heifer prices in the 1980's. Nevertheless, future changes in market and industry conditions could result in beef packers enhancing their market power.

A recent GAO report on the Packers and Stockyards Administration noted that concentration in meat packing has increased in recent years, and marketing practices in the livestock industries have changed significantly with the decline of terminal markets. GAO reported that higher concentration makes it easier for meat packers to engage in anticompetitive behavior and depress livestock prices. GAO concluded that livestock procurement markets are regional, and that additional information and analysis are needed to define and monitor competitiveness in the relevant markets. GAO recommended that the Secretary of Agriculture determine a feasible and practical approach for monitoring activity in regional livestock markets. While we do not agree that defining regional markets is necessary in order to monitor anticompetitive practices, we agree that given the structure of today's livestock and meat packing industries, effective monitoring for anticompetitive practices requires an expanded effort. For this reason, P&SA is taking steps to expand its role in dealing with any competitiveness issues that may be associated with concentration in the industry. This includes the following in addition to its current activities:

- Establish an information base sufficient to define and analyze regional markets and/or to support action.
- Establish an information base sufficient to: (1) predict with a reasonable degree of certainty the effect of industry changes and trends; and, (2) strengthen public confidence in Agency opinions and positions on structure and performance.
- Conduct or coordinate investigative research about concentration/integration and/or industry structural change.

During the past year, the Packers and Stockyards Administration reviewed data needs relating to the goal of defining and analyzing regional cattle procurement markets, and examining vertical coordination arrangements in hog production. Industry structure and trends in the cattle and hog packing industries will be examined. The Agency currently is preparing plans to collect the data and conduct analyses. Work on the activity is being coordinated with researchers at universities which have contracts with the Agency to study concentration in the red meat packing industry.

We are enhancing our current monitoring activities. It has been this Agency's experience that the best way to deter involvement in activities that violate the P&S Act, including anticompetitive practices, is to be visible in the industry.

#### STUDY OF CONCENTRATION IN THE RED MEAT PACKING INDUSTRY

A sum of \$500,000 was included in P&SA's fiscal year 1992 appropriation to conduct a study and report on concentration in the red meat packing industry, with at least half the funds to be used to contract with universities and other organizations.

An interagency working group was formed including the Packers and Stockyards Administration as chair, the Economic Research Service, Agricultural Marketing Service, National Agricultural Statistics Service, and Office of the General Counsel in the Department of Agriculture plus the Federal Trade Commission, Commodity Futures Trading Commission, and Department of Justice to advise on all aspects of the study.

The Packers and Stockyards Administration solicited public comments on the study and such things as project selection and methodology through a notice in the Federal Register. The Agency reviewed the comments with the interagency working group and developed a plan for completing the study. The plan was reviewed with Congressional staff.

Contracts totaling \$491,861 were awarded for six projects in September 1992. The contracts are for 2 years. The contractors and subcontractors are located in Texas, Oklahoma, Iowa, Kansas, Nebraska, Missouri, and Virginia.

The projects will define regional cattle procurement markets, assess the effects of market concentration on prices paid for cattle, examine buyers' pricing and procure-

ment practices in cattle procurement, examine the extent and implications of vertical coordination in hog production, conduct a thorough review of literature on competition in the meat packing industry, and examine the role of captive supplies in beef packing. Captive supplies refer to cattle that packers own or contract to purchase before the cattle are ready for slaughter.

The Agency is reviewing contractors' data needs and preparing data collection plans. Much of the data will be collected under P&SA's data collection authority, including its confidentiality restrictions. Data collection efforts and other work on the study will require a significant amount of Agency time in fiscal years 1993 and 1994. A final summary report on the study is planned for late 1994.

#### CARE AND HANDLING OF LIVESTOCK

Recently the handling of nonambulatory animals at stockyards has received considerable attention in the media. P&SA is currently investigating stockyards to determine whether their services, facilities, and procedures for receiving and handling livestock are adequate. Proper care and handling means stockyards must handle livestock in a manner that protects the quality and value of the animal.

Under the provisions of the P&S Act, if it is found that the care and handling of livestock at a stockyard is in any way unjust, unreasonable, or discriminatory, then rules, regulations, and practices can be prescribed for the handling of such livestock to the extent necessary to protect the quality and value of the animal. The Agency has a regulation that requires stockyard owners and packers to exercise reasonable care and promptness when handling livestock to prevent shrinkage, injury, death, or other avoidable loss. P&SA investigates all complaints received concerning the care and handling of livestock at stockyards.

#### CLEAR TITLE

The Agency also has responsibility for administering the clear title provisions of Section 1324 of the Food Security Act of 1985. As of January 27, 1993, 18 States have received certification of their central filing systems under these provisions.

The Agency is continuing to review its procedures for carrying out its responsibilities for certification of central filing systems to determine whether it should be providing additional assistance to States operating the systems or if previously certified systems should be reviewed.

#### AGENCYWIDE INFORMATION MANAGEMENT SYSTEMS

The Agency will continue the process of implementing a Wide Area Network (WAN) of computer systems during fiscal year 1994 to support information management systems. The basic WAN is in place throughout the Agency. The WAN is in the process of being enhanced by connecting to the outside computer resources that need to be accessed on a daily basis. These resources include the Department's Ungerman Bass broadband network, the Animal and Plant Health Inspection Service (APHIS) Field Servicing Office (FSO) in Minneapolis, the National Finance Center (NFC) in New Orleans and the National Computer Center (NCC) in Kansas City.

Present data base programs will be enhanced to provide greater access throughout the Department and Agency. Additional data base requirements are currently being analyzed for future development. The implementation of the WAN and the increased data base capabilities will establish a flexible computing base from which P&SA can keep pace with evolving computer technology and respond to a changing industry. The main focus of the automation effort will be to make the Agency more efficient and productive in monitoring the industries subject to the P&S Act.

#### CONCLUDING REMARKS

Mr. Chairman, we appreciate the opportunity to present this statement and welcome the opportunity to respond to any questions you and other members of the Subcommittee may wish to ask.

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#### WORLD AGRICULTURAL OUTLOOK BOARD

#### STATEMENT OF JAMES R. DONALD, CHAIRPERSON

Mr. Chairman and Members of the Committee, it is my pleasure to appear before you today to discuss the work of the World Agricultural Outlook Board.



## OVERVIEW

The World Agricultural Outlook Board (WAOB) plays a critical role in the U.S. Department of Agriculture's (USDA's) ongoing effort to ensure that its commodity information system responds to today's rapidly changing world. The purpose of the WAOB is twofold: to ensure that USDA's intelligence on both domestic and foreign developments which influence U.S. agriculture is timely, accurate, and objective; and to speed the flow of that information to producers, consumers, policymakers and the general public.

WAOB's main function is to coordinate and review for accuracy and consistency all USDA forecasts and analyses relating to international and domestic commodity supply and demand conditions. As a small agency responsible for coordinating USDA's economic intelligence program, the WAOB is highly-dependent for analytical support on other agencies, especially the Economic Research Service, the Department's principal economic research arm.

WAOB is the Department's focal point for weather and climate information and weather-based impact assessments; these monitoring and analytical activities within USDA are coordinated by the WAOB Chairperson. Remote sensing activities in USDA also are coordinated by the WAOB Chairperson. Weather assessments and remote sensing activities are directed at improving the accuracy and timeliness of crop estimates.

USDA representation with respect to economic and meteorological matters is provided by WAOB staff. WAOB economists maintain liaison with counterparts in the Commodity Futures Trading Commission (CFTC) regarding developments in commodity markets. WAOB agricultural meteorologists participate in various domestic and international organizations such as: the Department of Commerce based Office of the Federal Coordinator for Meteorological Services and Supporting Research; the National Academy of Science's Board on Atmospheric Sciences and Climate; and the United Nation's World Meteorological Organization and Food and Agricultural Organization.

## SPECIFIC FUNCTIONS AND PROGRESS

WAOB chairs USDA's Interagency Commodity Estimates Committees (ICEC's) and seeks to assure that sound information from both domestic and international sources is fully integrated into the analytical process. The ICEC's are composed of representatives from the Economic Research Service (ERS), Agricultural Stabilization and Conservation Service (ASCS), Foreign Agricultural Service (FAS), Agricultural Marketing Service (AMS), and WAOB. All committee members are USDA professionals with responsibility for developing official estimates of supply, utilization, and prices for the major agricultural commodities. It is through these committees that the various USDA agencies work together in a coordinated effort. Development and use of new analytical tools and evaluation of forecasting performance are ongoing responsibilities of each committee.

Also, WAOB chairs the Interagency Agricultural Projections Committee (IAPC), created to sharpen the Department's focus on longer term commodity and aggregate farm sector projections. Macroeconomic and farm program assumptions used by USDA analysts are cleared through the IAPC to assure uniformity within the Department. Analytical results approved by the IAPC provide the data to USDA agencies charged with responsibilities requiring the use of such projections.

WAOB publishes the World Agricultural Supply and Demand Estimates (WASDE) report each month. WASDE presents aggregated global supply and demand data for all major agricultural commodities as well as detailed production, trade, utilization and stocks forecasts for the United States and for principal U.S. competitors and foreign importers. Release is simultaneous with the U.S. Crop Production report. Like the domestic Crop Production report, the WASDE report is viewed by U.S. and international agriculture as a benchmark report.

The Agricultural Statistics Board (ASB) of the National Agricultural Statistics Service (NASS) and the WAOB are co-located in a single lockup facility to maximize security conditions for analysis, compilation and release of world crop data and supply/demand estimates. This physical arrangement with the ASB facilitates interaction between domestic and international analysts.

USDA provides unbiased commodity supply and demand information to all market participants simultaneously and at minimal cost. As commodity prices are impacted less by Government programs and more by market forces, the need for objective and current information becomes even more critical. WAOB recognizes the need for rapid information dissemination and strives to place the WASDE report into the hands of farmers and other users as quickly and effectively as possible. Increasingly, improved technologies are being used to speed the flow of information. WASDE is

transmitted electronically upon release at 3 p.m. to a central USDA system that can forward it to all interested users, greatly broadening the potential for report dissemination. A summary of the report placed in USDA's AgNewsFAX system gives ready access to the press and public. Wide advertising of the WASDE report through the Economic Agencies' "Reports" catalog has greatly increased public subscriptions.

Each month, WAOB records highlights of the WASDE report for broadcast on USDA's radio and television satellite network. Also, the report summary is sent electronically to U.S. embassies and trade offices around the world to keep U.S. agricultural attachés, counselors, and trade representatives current with the very latest information on commodity supplies and prices.

Weather, as much as any economic or policy development, continues to be a significant variable underlying agricultural production and prices in the Board's current year assessment work. Consequently, USDA places a high priority on incorporating weather-based assessment information into all analyses. The focal point for this activity is the Joint Agricultural Weather Facility (JAWF), operated jointly by the WAOB and the National Oceanic and Atmospheric Administration of the Department of Commerce. This facility, located in the South Agriculture Building, continually monitors and assesses global weather events and their probable impact on agricultural output. JAWF briefings, reports and special alerts are key inputs to the development of USDA crop yield estimates for both competitors and customers in world markets.

The Weekly Weather and Crop Bulletin (WWCB), USDA's electronic dissemination network, and radio and television are the principal means used by JAWF to disseminate meteorological assessments to the public. JAWF's early warning capability diminishes the likelihood that policymakers, farmers and other participants in the agricultural system will be caught unaware of a foreign crop failure or other significant global weather-related event. The WWCB is widely recognized as a prime source of reliable domestic and international crop and weather information. Summaries of this report are dispatched electronically by FAS to selected foreign posts.

#### RECENT ACTIVITIES

WAOB improved the monthly World Agricultural Supply and Demand Estimates report, which presents estimates of global supply and use for grains, oilseeds, and cotton and U.S. supply and use estimates for red meat, poultry, eggs, and milk, by expanding coverage to include sugar and by strengthening the analytical data base for forecasting all commodities.

In March 1992, WAOB began publishing a monthly U.S. sugar supply and use balance sheet in the WASDE report. Also, WAOB assisted ASCS in designing Sweetener Market Data, a new publication. These reports provide timely information to policymakers, producers, processors, and the public.

Since July 1992, more comprehensive coverage of all oilseeds and products have been reported in the WASDE report. This improvement was timely in light of the significant shortfall in rapeseed production, particularly in the EC and Canada.

WAOB continued to develop and implement a forecast evaluation system. The primary purpose of this project is to improve commodity forecasts by evaluating past performance. Substantial progress has been made on this project with the support of the Department's leadership and technical assistance provided by USDA's Office of Information Resources Management. All forecasts published in the WASDE report, numbering about 500,000, from the first issue in September 1973 to the current issue have been entered into the evaluation data base. Because of public interest, a portion of the data base on U.S. field crops will be offered for sale under the user fee program for USDA economic publications.

The Department's Interagency Agricultural Projections Committee, under leadership of WAOB, continued a concerted effort to improve USDA's longer term commodity estimates. These projections are used by the Commodity Credit Corporation to develop a budget baseline as well as for analyzing farm program alternatives.

The Joint Agricultural Weather Facility, operated by the WAOB and the National Oceanic and Atmospheric Administration, continued to jointly publish with NASS the Weekly Weather and Crop Bulletin. The WWCB summarizes global weather developments and assesses the potential impact on agricultural production.

WAOB monitored weather conditions at home and abroad to provide both the Executive and Legislative Branches with early warnings concerning potential weather impacts on crop yields. For example, as early-season dryness developed in the Midwest, WAOB evaluated the potential effects on forage availability and on potential crop prospects for use by USDA policymakers, particularly in disaster assistance decisions. Conversely, excessive rains in June delayed corn planting and cool weather



slowed crop development raising additional concerns. While worst-case scenarios of summer drought or an early autumn freeze were predicted throughout the season by private-sector forecasters, WAOB maintained objective assessments of actual conditions, tempering the predictions of low crop output. As the season further unfolded during 1992, WAOB's crop assessments proved to be quite accurate.

In the foreign arena, WAOB meteorologists prepared special statements, reports, and briefings providing early alerts of weather conditions affecting crop yield potential in major international crop areas. Notably, weather difficulties in the former Soviet Union, China, Europe, Morocco, Australia, Brazil, Argentina, and Canada were documented.

Through interaction and cooperation with U.S. Navy meteorologists, WAOB gained on-line access to a new source of global weather products for agricultural areas. This enhances JAWT's agricultural weather assessments by improving the ability to anticipate significant foreign weather developments that may impact agriculture up to 72 hours in advance of the actual event.

As part of WAOB's role in climate activities, the Board's Chief Meteorologist represents the United States on the North Atlantic Treaty Organization's "Special Programme on the Science of Global Environmental Change." The panel directs the organization of scientific workshops bringing together the world's leading scientists on global climate and environmental change.

The Board coordinates remote sensing activities at the Department level. Seven USDA agencies depend on remote sensing to assess crop conditions, manage natural resources, and operate farm programs. USDA is the largest purchaser of Landsat imagery among civilian Federal agencies. The Board represented the Department at interagency meetings, provided data to NASA to support negotiations for reduced imagery costs, and contributed information to NASA's Annual Aeronautics and Space Report to the President and several surveys on agency remote imagery requirements.

Consistent with the Board's projections responsibility, WAOB's Chief Meteorologist participated in two conferences focusing on environmental and climate change. At present, the work is in the data collection and discovery phase. Much analysis remains to be done before conclusions can be drawn about weather's impact on agriculture.

Among long-term significant Board projects of the past year, WAOB worked with FAS and ERS to identify data needs and develop revised data series for the 12 countries of the former Soviet Union and the Baltic States. To collect otherwise unavailable information regarding the supply and demand for agricultural commodities, WAOB personnel traveled to the former Soviet Union, China, India, and Indonesia. These data improved the analytical base for forecasting U.S. cotton, vegetable oil, and protein meal exports.

WAOB coordinated USDA's participation in Commodity Futures Trading Commission's weekly closed market surveillance briefings. USDA and the CFTC shared market information as part of an ongoing futures price monitoring activity.

WAOB coordinated and directed USDA's 69th Annual Outlook Conference, "Agriculture's Changing Horizon" (December 1-3, 1992). The conference featured 31 topical sessions and prominent speakers from the public and private sectors; it attracted an on-site audience of 1,000, including a large press contingent. Plenary sessions of the conference were broadcast nationwide via satellite.

#### BUDGET REQUEST

Our total budget request for fiscal 1994 is \$2,582,000. This represents a net increase of \$45,000 from the fiscal year 1993 level of \$2,537,000. This includes increases of \$14,000 for increased operating costs and \$45,000 to fund the January 1993 pay raise increase. These increases are partially offset by a decrease of \$14,000 to implement the President's program for reducing overall administrative costs by 3 percent.

This concludes my statement, Mr. Chairman. I will be happy to respond to your questions.



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